Economic Development Of Great Britain

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ECONOMIC DEVELOPMENT OF GREAT BRITAIN

by

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PREFACE TO THE FOURTH EDITION

IN THIS edition, most chapters have been revised and some chapters enlarged. Special efforts have been made in revising chapters on the Background of Economic Development (Ch. 1), the Industrial Revolution (Ch. 2), the Agrarian Revolution Ch. 3), and the Great Depression (Ch. 20). The authors will gratefully accept suggestions for further improvement.

AUTHORS

PREFACE TO THE THIRD EDITION

THIS NEW edition is both revised and enlarged. Most chapters have been enriched with new materials, so that the book might be updated. Efforts have been made to emphasise the points regarded as most significant by the historians, economists and specialists.

In preparing this new edition, the authors have been helped by Prof. Kalipada Chakrabarti and Prof. Bimal Chandra Chakrabarti of Surendranath Evening College, Calcutta. Thanks are due to Prof. Sankar Ray of the S. N. College who showed a keen interest in the development of the present edition. None of the above-mentioned persons is to be held responsible for the result.

AUTHORS

PREFACE TO THE SECOND EDITION

IN THIS second and extensively revised edition the authors have incorporated substantial changes in almost all the chapters. Some new chapters have been added ; and a great emphasis has been placed on theoretical analysis.

In preparing this edition the authors have been helped by Prof. P. K. Roy of the Department of Economics, Calcutta University, and Prof. Subodh Krishna Datta of Vidyasagar College, Calcutta. The authors want to thank Vice-principal M. C. Dasgupta of Surendranath College, Calcutta, for unfailing encouragement at every step in the development of the present edition. No formal thanks are enough to appreciate the magnificent efforts of the Publisher, Sri Ranjit Saha in producing the book so quickly.

The authors, of course, are solely responsible for the views expressed in the book.

AUTHORS

PREFACE TO THE FIRST EDITION

THE BOOKS in this series do not set out to compete with standard works on the subject. Their humble aim is to offer a contour-map of the economic development of some important countries in the light of modern economic analysis. Their success will depend on the degree to which they stimulate and help readers to read in an informed way.

We sincerely thank the authors whom we have quoted frequently. Our thanks are due to Prof. P. K. Roy of the Department of Economics, Calcutta University, Vice-Principals P. N. Bhattacharya and S. K. Chatterjee of Surendranath Evening College, Calcutta, Prof. A. J. Basu of Bangabasi College, Calcutta, and Prof. Prasanta Kumar Ghosh of Raja Peary Mohan College, Uttarpara, for their unstinted encouragement. We are grateful to Prof. Ajit Kumar Chatterjee of S. N. College and Prof. Provas Sinha of Raja Peary Mohan College, for contributing to the stylistic improvement of the books. Finally, we must acknowledge the signal patience of our Publisher, Sri Ranjit Saha.

Suggestions for further improvement will be accepted with thanks.

AUTHORS

CONTENTS

INTRODUCTION

THE ECONOMIC history of modern England depicts faithfully the rise and growth of Industrial Capitalism and its subsequent decline. For centuries before the Industrial Revolution, agriculture exceeded in importance all other types of econom ic activity, but this was no peculiarity of the economic life of Gr eat Britain. In all countries of the world, this had been so before the advent of industrialism ; and in the under-developed and un-developed countries of the world agriculture still continues to be the most important economic activity. The uni que feature of the economic development of Great Britain lies in th e fact that modern industrialism made its appearance in that coun try earlier than in other countries and since capitalism springs from industry, she had the unique feature of being the first capitalist country in the world.

During the eighteenth and nineteenth centuries, a relentless process of advance of industrialism, pushing agriculture to the background, continued in England. Gradually other modern powers followed the same course. This onward march of industrialism produced economic and social consequences of a far-reaching nature. The simple economic organisation of earlier centuries, characterised by predominance of agric.ltu re in the occupation pattern, was replaced by a very complex economic organisation with industry as its heart-piece. The commercialisation of agriculture drove a substantial portion of rural population to industrial towns and cities ; the independent craftsmen using simple tools in their domestic workshops lost their independence and became wage-earners in big factories situated mainly in industrial towns and big cities. Local self-sufficiency and limited local markets gave way to a system of large-scale production and international division of labour. The social organisation, characterised by a division between feudal lords on the one hand and peasants and serfs on the other, underwent a drastic change. With the decline in the importance of agriculture, importance of feudal lords also declined ; businessmen and indus-

trialists became more and more important in the social fabric. The struggle for political power between the industrial capitalists and the feudal landlords ended in a convincing victory for the former. But a new class created by the rise of industrialism posed a serious challenge to the new victors. The tremendous economic progress of the period was accompanied by greater social inequality. 'It made a few rich but it made many poor.'[1] It increased national wealth but it diminished, at least for the time being, national well-being. For the first time a class of landless and propertyless proletarians was created. The community of interest which a stable society presupposes did not exist because economic relations acted not as uniting but as disruptive and disintegrating forces. The misery of the working people moved the humanitarian and sentimental thinkers. Some of them stood for government reforms ; some accepted it as inevitable, opposed all government interference and appealed to the capitalists to be more human in their approach to the problems of working people. The socialists discovered that the malady was almost entirely due to economic causes and that the economic conditions of the working people could be bettered only by capturing political power. The militant socialists chalked out a programme for final overthrow of the capitalist system itself. The trade-union movement developed with its aim, partly economic and partly political. The social and political strife that broke out between the different classes in the early phase of capitalism, continued unabated throughout the century. In the first part of the nineteenth century the co-operative movement, which seeks to minimise class-conflict within the framework of capitalist order, made much headway in England. The Government also took some half-hearted measures to help economically weaker classes of the society and in this respect the Factory Laws and the Poor Laws make interesting study. Social insurance, a co-operative method of protecting poor people and men of moderate means against the chief risks of life, that had been first adopted in Germany in the last quarter of the nineteenth century, was adopted in Great Britain in the first decade of the present century.

The Industrial Revolution brought about dramatic changes in the system of transport and Great Britain emerged as the ship-

[1] Birnie, *Economic History of Europe, 1760-1939*, p. 99.

builder of the world. Phenomenal progress was made also in textile industries and for more than a century Great Britain became the biggest exporter of cotton textile in the world. The history of textile industry is also interesting because the connection between growing market, scarcity of labour supply and invention of machinery was clearly brought out in the textile industries. The logic of economic necessity turned Great Britain to free trade ; the same logic also explains why liberal commercial policy was extremely short-lived.

Some authorities on economic development regard the Great Depression which started in 1873 and continued into the middle of '90's, as 'forming a watershed between the two stages of Capitalism : the earlier vigorous, prosperous and flushed with adventurous optimism ; the later more troubled, more hesitant, and some would say, already bearing the marks of senility and decay'.[1] This depression had a profound effect on British Capitalism. While in . . coming-of-age Capitalism launched a relentless struggle against monopolistic privileges of craft guilds and trading corporations and ensured free mobility of factors of production, after depression it became afraid of competition and devised measures for restricting it. Apart from price and output agreements in different manufacturing industries, a definite trend towards amalgamation movement became apparent in the late '90's.

Again, in the inter-war period, Capitalism underwent a profound change. The economic ills of the period were sought to be explained as dislocations caused by the war. But the so-called 'monetary maladjustments' eluded all attempts at 'stabilisation' and serious thinkers began to suspect that something must be wrong with the capitalist economic order. In the Great Depression of 1929-32, the shibboleth of automatic adjustment of free-enterprise economy was completely exploded. The halting recovery of the '30's did not come from within the system ; the stimuli had to come from outside. The State had to come out openly with an 'economic role' of its own. To save private Capitalism, the State had to make successive inroads into the economic sphere. English intellectual opinion began to move

[1]M. Dobb, *Studies in the Development of Capitalism*, Revised 1963 edition p. 300.

beyond *laissez faire* and towards Socialism. The views of George Bernard Shaw and Beatrice and Sidney Webb won a section of English public to Fabian Socialism.

The Second World War reduced Great Britain to a second-rate power—both economically and politically. The U. S. A. emerged from the war with a greatly expanded productive power and holding a position of hegemony in the capitalist world. The Labour Party of Great Britain, a believer in the inevitability of gradual socialism, came to power. To 'make Capitalism work well,' they adopted a policy of 'mixed economy' and promised to turn Great Britain into a 'Welfare State'. Its early goals included: (*a*) a programme of nationalisation of certain vital industries; (*b*) extension of welfare services; (*c*) redistribution of income through taxation; and (*d*) a moderate type of piece-meal planning. It is interesting to note, however, that when the Conservatives returned to power, they did not change the above basic programmes. The unbridled Capitalism of the nineteenth century is dead and it has been replaced by 'Planned Capitalism' or 'State Capitalism'. But even in its new guise, it retains most of its characteristic features.

CHAPTER I

THE BACKGROUND OF ECONOMIC DEVELOPMENT

A. THE PEOPLE

THE QUESTION of economic development of a country cannot be divorced from the 'genius' of the people who inhabit it. One of the most important keys to the English economic development lies in the English character—specially those traits in it which once led Napoleon to derisively call the English 'a nation of shop-keepers'. The 'nation of shop-keepers' had become the pioneer of the modern age; through the Industrial Revolution, it ushered into the world the era of Machine Age which has changed fundamentally the habit of work, the process of production, the method of transport and the very outlook of the people of the whole world. For the first time, the materialistic outlook began to dominate permanently all realms of thought: every country of the world tried to imitate England, and vied with one another to introduce as quickly as possible the new type of economic system that England has evolved for herself. Every nation in the world now tries to be a nation of shopkeepers.[1]

Now, the story of the development of the typical English character is the story of the English people themselves; how they settled in England and how stubbornly they defended her against later invaders; how British character has evolved through centuries of hard labour on an island not endowed by nature with fertile soil or a favourable climate.

Conquests

During the 1st century, A.D. the Romans conquered England which was peopled by wild and primitive tribes—Celts and Brythons (Britons). During the 5th century, A. D. when the

[1] Dubey, *Economic Development of England*, p. 2.

Romans withdrew, the wild German tribes invaded Britain and finally settled there. These Germrn tribes were called the Anglo-Saxon or the 'English'. Waves after waves of the 'English' poured in, defeated the 'Britons' and became the masters of the country, now called England. In the nineth and the tenth centuries, England was again invaded by the Danes and Norwegians—the Northmen. The English could not resist the Danes who gradually became the rulers of the whole of England. In 1066, another group of the Northmen who had settled earlier in Normandy in northern France, conquered England under their leader 'William the Conqueror'. Since then, the country has been practically free from foreign invaders.

These different races, the Celtic, the Romans, the Anglo-Saxons and the Nordic, blended together to evolve the English character. The most important significance of these invasions lies in the fact that it gave fresh life to the inhabitants of the country. Town-life and commerce in England, which later became one of the foundations of modern economic development, started with the Danes who were the leading merchants in the world at that time. The Norman conquest (1066) furnished the first definite and reliable information about the economic condition of the country. To determine the taxable capacity of the people, William the Conqueror considered it necessary to have intimate knowledge about the economic conditions prevailing in England at that time. The official census called the *Domesday Book* was taken in 1085. It is the first body of statistics on which we can base our knowledge of the early economic conditions in England.

Foreign Influences

The Norman conquest opened the door to foreign influences on a vast scale. With the Norman conquerors came many Flemings who were very expert weavers. Under the patronage of Norman kings a large number of Frenchmen also immigrated to England. They were artisans, merchants and Jews. The Normans built a number of monasteries and churches for the practice of Christian religion. There was a great activity in masonry work of all kinds and the crude English buildings of old days were replaced by castles and forts of stone. Some of the monasteries amassed huge

wealth and power and created political and administrative trouble for the king. In the economic field, the monasteries helped commerce and industry; many of the monks practised industrial arts : they wove cloth, managed sheep farms and carried on trade in wool. Again, the Jews, who immigrated to England from France, helped commerce and industry in England in their own way. Since money-lending as a trade was forbidden to Christians, the Jews, who were not Christians, plied their trade of money-lending in English towns.[1] In short, the foreign artisans, merchants, and Jews laid the foundations of English trade and industry. When they came in conflict with the local population, they generally yielded and were generally absorbed in the latter.

Foreign economic influence came from another source. When Christians fought crusades against the Turks for the possession of their holy land, Jerusalem, England also sent her kings and commoners to fight the non-Christians.[2] This had great commercial significance. England came into contact with the Italian cities of Genoa and Venice and obtained a footing in the lucrative trade with Asia. Similarly it was during the crusades that England first came in touch with Constantinople, the capital of the Eastern Roman Empire. The influence of Roman culture had a great impact on English life of that period.

B. THE MANORIAL SYSTEM

The unit of rural organisation throughout the Middle Ages was the manor. A manor was a large estate consisting usually of a single village and an area of land surrounding it. It was enclosed by a hedge which acted as a protection from wild animals. The hedge also acted as a boundary separating one manor from another or from wilderness. A manor had a lord who held the estate from the king who was absolute owner of all land. The king himself possessed many manorial estates; great

[1] In the absence of competition, the Jews charged very high rates of interest. Their privileged position, economic wealth and separate religion brought them into open conflict with the local population. Throughout the 12th, 13th and 14th centuries anti-Jew riots took place in England.

[2] These religious wars were fought between 1096 and 1270.

nobles possessed many manors usually scattered throughout the country ; many lesser manorial lords possessed but a single manor ; the Church also possessed many manors.

The manorial system was characterised by the ideal of self-sufficiency. The manors were really self-sufficient in food, clothing and building of shelters ; but they had to depend on towns for the supply of luxuries (like silk, velvet, lace, ribbons, etc.) and implements of iron and steel, salt, etc. The town people, in their turn, relied upon manors for the supply of food. In manorial transactions money was scarcely used and barter-exchange was the general practice. But as trade with towns became more and more common, money also came into wider use.

A large part of arable land of the manor was held by the lord ; a part was held by free-holders and a part was assigned to the serfs. The serfs had no legal title to their holdings ; they held land by custom only. In return, the serfs had to render the customary agricultural services to his lords. On the lord's land he had to work two or three days in a week. In addition, he had to make certain payments in cash or kind during the festivals. He could not leave the manor without his lord's permission, which usually was not granted. If he fled, he was brought back and punished. These serfs were no better than slaves. They had no legal rights against their lords. They were denied the right to be educated. The restrictions and obligations reduced them to a perpetual state of semi-slavery.

The pastures, the woodlands and the wastelands were held in common between the lord and the peasant. The arable lands were not fenced and hence the name '*open field system*'. The total holding of one man was not consolidated—it was scattered intentionally, the purpose being 'to ensure an equitable distribution' of good and bad land. This '*strip system*', however, resulted in much wastage.

Cultivation was carried on by groups, not by individuals. The system of cultivation was strictly regulated by custom and thus any improvement in agriculture was impossible. This was historically inevitable because cultivation was carried on for subsistence and not for market.[1]

[1] For details *see* Chapter III.

The manorial system broke up in the period between the 14th and early 16th centuries. The medieval village community was partially destroyed and collective husbandry was replaced by a tendency towards individualist farming.

C. TOWNS AND TRADE

The bulk of the population was dependent on agriculture. They lived in small villages under manorial system. Traders and artisans, who formed only an insignificant portion of total population, lived in small towns.

In England the growth of the towns originated with the foreigners. Towns existed in Roman Britain but these towns disappeared during the period of chaos that followed their departure. The Danes and the Normans built many new towns, suitably situated for trade and commerce. Traders favoured towns because the paralysing restrictions of the feudal manorial system were somewhat slackened there. The traders of a town were wealthy men who could purchase greater freedom from the restrictions of the manorial system. After the crusades when foreign commerce considerably increased the wealth of the traders, the towns began to buy out their freedom through paying a lump-sum in full payment of their dues for all times. In exchange for this, the king granted a charter of freedom, *Firma Burgi*, to the towns. This enabled a town to have its own municipal government, and its own Borough Court which decided all cases, criminal or civil, arising in the town. It also provided for the establishment of a merchant guild for regulating the trade of the town. In short, the trading community freed itself from the paralysing influences of the feudal manorial system.

Markets and fairs were of great importance for exchange of goods in the Middle Ages. Usually the Crown granted the right to hold a market to the authorities of the town. But sometimes the right was held by an individual or by the Church. In London, Markets were open everyday but in other towns they were held once or twice a week. While the markets were local in character and sold generally articles of daily consumption, the fairs attracted people from far and wide and dealt in luxury goods and other rare and costly things.

Merchant Guilds

Traders and merchants formed a distinct social and economic class in towns. Because of their wealth, the members of the Merchant Guild were the most powerful members of the town government.

The Merchant Guild was the association of the merchants carrying on trade in a town. The primary object of the guild was to monopolise trade and industry of the town for the benefit of its own members. It was the exclusive right of its members to buy and sell goods within the town without paying toll. A non-member was not permitted to sell by retail ; he could sell whole-sale on condition that he paid toll, dealt with the members of the guild only, and did not buy certain listed articles the supply of which was limited.

A guild of one town sometimes established commercial agreements with the guild of some other town. Such agreements might be entered upon even between towns in different countries, and without reference to the national government on either side.

D. MEDIEVAL INDUSTRIAL SYSTEM

Stages of Industrial Development

The manufacturing industry passed through many distinct stages :

(1) the household system ;
(2) the guild system ;
(3) the domestic system ;
(4) the workshop system ;
(5) the factory system.

In the household system there was no question of market for the products. Production was carried on for home use and not for sale. In this stage, the industry was comparable to manorial agriculture.

In the guild system a local market had come into existence : the master-craftsman maintained connection with a limited clientele. He required little beyond his tools and the skill of the

artisans under his control. While in the household stage manufacture of rough clothing and tools that a person (say, a cultivator) required was done by himself or his famliy, in the guild system, there appeared a class of people (e.g. the masters, journeymen and apprentices) for whom manufacturing was the only or main occupation. 'Commercialisation' had just begun. The rise of the guild system—the craft guilds—first among the weavers in the 12th century—led to the creation of industry as a separate branch of economic activity, distinguished from agriculture on the one hand and trade on the other. This rise of the craft guild system was made possible by the earlier appearance of guild merchant or trader who acted as a link between the craftsman and the consuming public.

When the guild system began to decline from the fourteenth century onwards for a variety of reasons, a new organisation of industry the domestic system, began to rise. The distinguishing feature of the new stage was the importance of capital in the industrial organisation. The actual manufacturing was still carried on by master craftsmen in their own homes using their own implements. But the capitalist middleman established a firm control over industry by virtue of his ability to buy raw materials and sell finished products on better terms. Because of the increasing complexities of the market, master-craftsmen could not secure adequate supply of raw materials at the cheapest price, nor could they ensure a steady market for their products. Naturally, they had to depend on the capitalist middlemen who, in course of time, came to occupy the most important position in the new industrial organisation.

In the next stage the capitalist middleman who had accumulated huge capital from trade began to employ a number of workmen in his own workshop. Apart from buying raw materials and selling finished products, he took to supervising production. He employed a large number of workers under one roof, specially in a town. In this stage, work was done by hand and by crude instruments ; but capital was more important than skill ; and owing to the subservient position of the worker, the capitalist owner could easily cheat him of his just dues. But workshop system was exceptional, and, in the main, the domestic system continued till the eve of the Industrial Revolution. After the

Revolution, the factory stage was reached. Factories were workshops where power-driven machinery was used.

Craft Guilds

The rise of craft guilds in the 12th and 13th centuries marked the emergence of industry as a separate branch of economic activity distinguished from agriculture on the one hand and trade on the other. A craft guild was an association of skilled workmen who were engaged in the production of a particular good. Craft guilds appeared in England first among the weavers. Other trades followed suit later on. At the end of the 14th century, in almost all towns each craft had its own guild.

Two forces were responsible for the establishment of the guild system in each industry.[1] The whole tendency of medieval life was towards co-operation and so it was natural for men of like aim and occupations to associate. Secondly, town authorities demanded that in each craft a certain standard of quality should be maintained. To ensure a certain standard of quality, each craft had to appoint officials to inspect the products of each workshop. In course of time this developed into an organisation, the craft guild, and, since it was impossible to compel the craft guild to be responsible for the quality of the product made by men outside it, membership became compulsory. No craftsman could carry on trade in a town, unless he was a member of the guild controlling that trade.

Objectives and Organisation of a Craft Guild

The primary objective of a craft guild was to maintain good workmanship. It aimed at maintaining a high standard of production and at securing a reputation for fair deal. It tried to maintain prices at a reasonable level and insisted that prices should be neither raised nor lowered in consequence of under-production or over-production in an industry. The guild appointed wardens to supervise the production of goods by its members. The wardens had the right to visit any workshop and inspect the work in the process of manufacturing. Articles which were found

[1] Southgate, *op. cit.*, p. 27.

to be defective were confiscated. The offending workmen were fined and, in extreme cases, expelled from the guild, which meant that they could not carry on the trade in that town. In the interest of good workmanship, the guild was thoroughly organised. In most of the guilds a council existed which conducted the routine business of the society and framed rules binding upon its members. A general assembly of all members of the guild met several times in a year to settle important matters. In some guilds wardens responsible for the administration of the guilds were chosen in the assembly, in others in the council.

There were three classes of members in a guild—the *masters*, the *journeymen*, and the *apprentices*. The master-craftsman owned a workshop in which *he worked side by side* with his subordinates —the journeymen and the apprentice. Journeymen were properly qualified workmen who were employed for wages and apprentices were non-paid youngmen engaged in learning the craft. 'The three grades did not indicate differences of social position; they represented different stages in a career.'[1] All lived in the master's house and took their meals at his table. In the heyday of the guild system, the guild rules required the apprentices to be treated by the master in the same way in which he would treat his own son. The master was required to teach him the whole craft very thoroughly, keeping back no secret, so that upon the successful completion of his period of training, the apprentice might become a properly skilled workman, fit for full membership of the guild. Usually, the trained up young man passed another few years as a journeyman, gained experience and accumulated a little capital for use when he would be in a position to set up his own workshop. Similarly, the journeyman was confident that in course of time he would be in a position to set up as a master. This almost guaranteed prospect made the question of level of wages insignificant; journeymen did not attempt to secure higher rates of wages because they apprehended that this would act against their interest when they themselves would become masters.

Apart from the primary object of maintaining the reputation of the guild for sound workmanship and fair dealing, the other object of the guild system was *protection of interests of individual*

[1] Southgate, *op. cit.*, p. 29.

members. (*a*) In fixing the price of a product, fair profit of the producer and fair remuneration of the apprentices were always kept in mind. (*b*) The guilds controlled entry into industry to protect against competition from outsiders. (*c*) Guild activity had its religious and philanthropic aspects. Maintaining lights in church, organising church prayers, organising religious plays, etc. were some of the religious functions of the guild. Philanthropic and friendly society activities of the guild for the benefit of the poor were of considerable importance. Members who were sick or in distress received relief from their guild. Provision was made for the widows and orphans of deceased members. The wealthier guilds also provided for the education of the poor. (*d*) It sought to promote a spirit of brotherliness among its members. The members of the guild were not allowed to take the disputes between them to the courts of law without first submitting the whole matter to arbitration by the wardens of the guild.

Decline of the Guilds

There can be no doubt about it that, in its time, the guild had many advantages. It secured to the workman some degree of certainty of employment and protected him against arbitrary oppression of the employer. In fixing the fair prices and quality of products, it protected both the buyer and the seller. It provided for a system of efficient training of industrial workers and created a class of bourgeoisie essential for rapid economic development on capitalistic path. But as the market expanded and capital became the most important factor of production, the *old economic organisation of the guild became not an aid but a hindrance to further development.* Being in essence a system of monopolistic control, it restricted individual enterprise and initiative and checked the progress of the economy.

Towards the close of the 15th century, because of the expansion of industry and trade, increasing number of candidates applied for the membership of the guilds. To safeguard their own interests the guilds, however, imposed severe restrictions on membership. The control of the guild gradually became corrupt, and influential members tried to advance their own interest, disregarding the interest of the guild as a whole. In

some crafts only the sons and relatives of guildmen were enrolled as apprentices. In some crafts new apprentices were excluded by making the admission fees extremely high. To prevent the rise of new masters, in order to limit competition, new rules were framed which sought to prevent the journeymen from becoming a master. Command over capital became the highest attribute of a man, and the journeyman soon discovered that this chance of becoming an independent master was disappearing. Since he was likely to remain a wage-earner throughout his life, he began to look upon the master as his employer. The journeymen demanded higher wages and a reduction in working hours. The masters refused to pay higher wages and complained that journeymen were idle, dissolute and drunken. In many towns the journeymen established separate organisations known as *journeymen guilds* or *yeomen guilds*, in order to safeguard their separate interest. The result was the emergence of class conflict in its naked form. As the guilds advanced in wealth, the medieval tendency to co-operation receded before the growth of the modern competitive spirit. The wealthier and the more important members of the guild began to wear 'livery'—a mark of distinction—and tried to monopolise the trading operations to themselves; other members who were nominally master craftsmen were compelled to sell their product to the 'livery' members and, in effect, to become wage-workers for them. The 'livery' members got themselves incorporated by royal charter into 'Livery Companies' and obtained from the Crown monopoly of trade.

As a result of this new development the differentiation between traders and producers became still more marked. The trader (the merchant capitalist) now gained the control of industry, while the producer lost his economic independence and was reduced to a wage-worker. Another obstacle was removed from the path of capitalist production.

Medieval Guilds and Modern Trade Unions: A Comparison

Quite possibly, there is no historical continuity between the trade unions of a later date and the craft guilds of the medieval industrial system. But though the former did not originate out

of the latter, it is interesting to note the points of similarity and dissimilarity between these two types of industrial organisation. First, the activities of the guild were confined to a small area, usually a town, while those of the trade union are nation-wide. But this difference, as pointed out by Southgate, is superficial. The guilds operated at a time when the economy was local and so its area of operation was also local. The transition from a local to a national economy in the 18th and the 19th centuries made the trade union nation-wide. Secondly, the guild included all who were connected with the craft, while the trade union protects the interests of the employees only. Thus while the guild was based on the identity of interests of employers and employees, the trade union assumes conflict of interests. But this is also a partial view. A genuine trade unionist often visualises that there are certain situations when co-operation with the employer is urgently called for. For example, both classes stand to gain by the prosperity of an industry and to lose by its slump. Thirdly, the guild was concerned, among other things, with religious and philanthropic activities while a trade union has none of such activities. It is interested in wages of the workers and their conditions of work only. It does not care for the reputation of the craft and for the technical training of the workers. Now this also is not wholly correct. In their formative period, trade unions offered 'friendly' benefits. Even today, a militant union undertakes philanthropic activities when required by the members of the union. There can be no doubt about it that the main stress of the modern trade unions is on militant activities. But this attitude is a product of grave circumstances under which the employees are made to work in a capitalist economy. And even under these provocative circumstances, it would be incorrect to regard all trade unions as indifferent to the reputation of their respective crafts. There are many unions which not only safeguard the material interests of their members; in their respective spheres they are zealous to promote the public welfare. Last of all, trade unions also attempt to adjust the supply to the demand for labour in industry. Just as guilds tried to limit the number of apprentices in the craft, so modern trade unions try to regulate the number of labourers working in an industry.

E. OVERSEAS TRADE

It was mainly through foreign commerce that England amassed large quantities of wealth which later provided the means for her industrial development. But throughout the Middle Ages the foreign commerce of the country was mainly in the hands of alien merchants—the Germans, the Italians and the Flemish. The town authorities and the Merchant Guilds were very hostile to them and they were subjected to various types of humiliations and inconveniences. But the interests of the Crown and of the towns were not identical in this matter. The king derived huge revenue from foreign trade and was therefore interested in encouraging the foreigners; the guilds and the towns were afraid of losing their monopolies. This conflict of interests between the king and the town authorities continued for nearly two centuries until the close of the Middle Ages.

Certain foreign merchant houses were granted special concessions. Of these the most important were the merchants of the *Hanseatic League*, popularly known as the Hansards or the Easterlings. Coming from certain German and Scandinavian towns, they were very wealthy and had therefore great influence with the governments of most of the countries of Europe at that time. Possessing a private army and a large fleet, they acquired special privileges and established trading connections in almost all trading centres of northern Europe. In England they were exempt from restrictions which were imposed on other foreign merchants, and they enjoyed preferential tariffs even over English merchants. For nearly three hundred years the Hansards took a leading part in the foreign commerce of England. But in the 14th century they were seriously challenged by a company of English merchants known as the *Merchant Adventurers*. The rivalry ultimately culminated in the downfall of the Hanseatic League in the middle of the 16th century.

The main demand of the English merchants against foreign merchants was that the foreigners should not be allowed to take part in the inland trade of the country. Gradually as the power of the towns and of English merchants increased with the accumulation of wealth, the government had to yield to their demands. Besides, the government soon realised that the English

merchants were not treated in foreign countries as liberally as the foreign merchants in England. It was agreed that foreigners should not be better treated in England than the English merchants abroad. This was the time when feeling of nationalism was developing in England. In 1553 the privileges of Hanseatic League were suspended in England because of the complaint of the Merchant Adventurers that the merchants of the league maltreated them in foreign countries. Finally in 1597, widespread mob violence forced the merchants of the Hanseatic League to leave England. The other foreign merchants followed their suit, and by the end of the 16th century English merchants established their full control over foreign trade. It was during the reign of Queen Elizabeth.

F. COMMERCIAL REVOLUTION

The geographical discoveries of the 15th century brought about a revolution in the sphere of world trade. These discoveries put England, which had hitherto been on a side-eddy, on the main stream of commerce. Gone were the days when Genoa and Venice practically monopolised the commerce between East and West. The discoveries opened to Europe the gold and silver mines of America and the lucrative markets of India and China. A wave of colonisation set in and the European nations fought desperate wars to gain political and commercial supremacy in new lands. Spain, Portugal, Holland and France were all defeated, and ultimately it was England which came out victorious. When the Seven-Year War ended in 1763, England had gained complete control of North America and India and therefore had the largest overseas market in the world. A number of trading companies with monopoly rights were started throughout the 16th and 17th centuries to exploit the overseas market. Their huge profits and territorial exploits paved the way for the Industrial Revolution.

G. MERCANTILISM

The division of medieval society was horizontal rather than vertical. Men thought of themselves as knights or merchants,

priests, artisans or serfs rather than as Frenchmen, Englishmen or Germans. But towards the close of the Middle Ages the idea of nationality became distinct. In England, on the ruins of the medieval political system arose a strong centralised monarchy. The concentration of political power and development of national consciousness had been reflected in the economic sphere in a *tendency to economic nationalism* which is usually described as Mercantilism. The objective of mercantilist policy was the formation of a strong, economically self-sufficient national state, independent of other states. In the name of national safety and self-sufficiency, a large, healthy and increasing population was desired ; tillage was preferred to pasture, because self-sufficiency in food was essential in time of war ; and for similar reasons shipping was protected and stimulated in various ways. There was no sharp distinction between fighting ships and merchant ships ; the latter could easily be transformed into the former. In mercantilist theory, a large supply of gold and silver was essential for military purposes, for it could purchase all other things. Unlike Spain and Portugal, England possessed no mines of gold and silver either in the mainland or in colonies ; and she had to obtain the precious metals by manipulating her foreign trade. Exports of gold and silver were prohibited and imports encouraged ; exports of goods and services were encouraged and imports discouraged, so that the balance of payment could be in favour of England ; commerce was regulated in such a way that trade would be promoted with the countries with which England had a favourable balance and discouraged with the countries with which England had an adverse balance ; monopolistic organisations for overseas trade were established so as to increase bargaining power of the home side.

But in fact, mercantilism could not help a country amass precious metals chiefly because other countries too adopted the same measures ; if each nation attempted to export more than it imported, there could be no international trade. Another cause of the failure was that gold continued to flow between different countries in spite of prohibition. Mercantilism demanded a degree of state regulation of the economic life of the nation for which its administrative apparatus was wholly inadequate.

The colonial system of the seventeenth, eighteenth and early nineteenth centuries was an application of the mercantilist principles to the government of overseas possessions. According to the mercantilists, the sole purpose of colonies was to minister to the economic needs of the mother country : to supply it with raw materials which it required and to provide it with market for its manufactured goods. Trade between colonies and foreign countries was prohibited ; industries were permitted to grow in colonies only so far as they did not compete with those of the mother country

Mercantilism, however, contained the dangerous assumption that competitors for international trade had to be in a state of perpetual warfare. Foreign trade questions, therefore, began to dominate political relations. England, France, Spain and Holland entered into a commercial rivalry which persisted for nearly three centuries. In the eighteenth century, however, the Physiocrats in France began to preach the benefits of absence of governmental interference in economic activities. In England, Adam Smith (1776) exposed the fallacies on which the mercantilist system was based and convincingly demonstrated the economic superiority of international division of labour over the ideal of national self-sufficiency. The Industrial Revolution altered the relation of Great Britain *vis-a-vis* the rest of the world ; she was now the first and the only industrialised country in the world and her interest lay not in restricting imports but in expanding exports. Naturally, she became the champion of free-trade policy, and by the first quarter of the nineteenth century the mercantile doctrine was thoroughly discredited.

Since the First World War, however, many countries have apparently entered on a phase of Neo-Mercantilism. Different trade restrictive measures practised even today (e.g. exchange control, currency depreciation, multiple exchange rates, etc.) can be traced back to the mercantilist system of thought.

H. THE RISE OF BANKING

Though money-lending at usury was practised by the Jews, and the Crown occasionally negotiated loans from such wealthy traders as the Hanse merchants and the Merchant Adventurers,

banking in the modern sense of the term did not exist in England in the Middle Ages. Since usury was regarded as immoral, and was prohibited by law, the practice of banking was impossible. But *as trade and commerce widened, the use of borrowed capital became imperative* and an act was passed in 1545 legalising the exaction of interest. Deposit banking—the receipt of deposits with a view to making loans at interest—developed in England in the early seventeenth century. At first some merchants performed these functions. Soon, however, a much more important group of London goldsmiths began to enter the business of banking. They began to receive sums of money from their customers for safe keeping, on promise of repayment on demand. When confidence in their wealth and integrity was fully established, the receipts which they issued against deposits became acceptable as money. They evolved several forms of paper money of which the most useful were the earliest forms of cheques and bank notes.

When some financial operations of the goldsmith-bankers proved unsound, serious criticism was directed against them, specially after the serious financial crisis of the 1670's. It was contended by the critics that banking ought to be in the hands of a chartered institution which would control larger resources and command more general confidence. The Bank of England was founded in 1694 on lines suggested by these critics.[1]

The establishment of the Bank of England was the beginning of organised banking in that country. The Bank gained a reputation all over the world. The developing foreign commerce brought the Bank into close touch with the banks of the world. It successfully developed an important money market in England which attracted funds from all over the world. The English industrialists, therefore, were able to use not only the funds of their own country, but also those of other countries.

The efficient system of banking thus set up was adequate for the needs of the country before the Industrial Revolution.

[1] See Chapter XVII.

CHAPTER II

THE INDUSTRIAL REVOLUTION

A. CAUSES

THE INDUSTRIAL REVOLUTION[1] is a popular term used by social thinkers of the nineteenth century to describe the series of far-reaching economic changes which transformed European societies in the 18th and 19th centuries. The revolution worked itself out in different countries at different times and under different conditions. The first in the field was Britain. There the revolutionary process beginning in the middle of the 18th century transformed her from an agricultural into a highly industrialised country in the course of a century.[2] In France it began in the '30's of the nineteenth century ; this country, however, was not fully industrialised, and agriculture retained its supremacy in the pattern of occupation. In Germany the revolution came in the last quarter of the 19th century. There it worked with extraordinary rapidity and transformed medieval Germany into a highly industrialised country. In Japan, it began its journey in the last quarter of the 19th century. In Russia it came into the picture in the 20th century and followed a planned pattern in keeping with her ideology. India today is on the threshold of an Industrial Revolution.

Appropriateness of the Term 'Revolution'

Some writers have expressed doubts regarding the applicability of the term *revolution* to describe economic changes. They seem to think that revolution is a sudden and violent process.

[1] The term was first used by F. Engels in 1845 when he speaks of it as having "the same importance for England as the political revolution for France and the philosophical revolution for Germany". It was popularized by Arnold Toynbee.

[2] To be more precise between 1760 and 1830.

But this need not necessarily be so. In fact, it may be gradual and imperceptible. In all events, however, it must imply a fundamental change, a qualitative transformation with vast potentialities. It is a well-known fact that the origin of the economic changes in Britain described by the term Industrial Revolution could be easily discerned in forces actively at work since the early 17th century. It is also well known that the changes were spread over a subsequent period of nearly a hundred years. But in spite of this gradual character of the changes, the term 'revolution' is appropriate in that it helps us to understand the magnitude of social, political and economic changes which transformed English society in the 18th and 19th centuries. It involved radical alteration both in the mode of production and in the organisation of production—the first in the form of a switch-over from manual work to work done by power-driven machines, and the second in the form of a switch-over from the domestic system to the factory system. Prof. Dobb rightly remarks that the tempo of change in the structure of industry and of social relationships, the volume of output and extent of trade was so abnormally high in this period that nothing short of the term revolution can adequately describe it.[1] In the picturesque words of Prof. A. Birnie, 'the changes which it describes were so far-reaching and profound, so tragic in their strange mixture of good and evil, so dramatic in their combination of material progress and social suffering that they may well be described as revolutionary.'[2]

Causes of the Revolution

If we analyse the causes of the revolution, we find that the most important economic cause was the tremendous expansion of overseas trade. In the sixteenth and seventeenth centuries, trade and commerce swiftly followed the footsteps of European explorers and discoverers in Asia, Africa and America. The widening of market led to division of labour and increasing specialisation. The expansion of demand for standardised goods like cotton cloth, etc. gave a great stimulus to mechanical

[1] M. Dobb, *op. cit.*, pp. 258-60.

[2] A. Birnie, *An Economic History of Europe, 1760-1939*, p. 1.

inventions of the eighteenth century. Inventions revolutionised cotton, coal and iron industries. Roads were built, canals constructed and overall transport sysem was revolutionised. Inventions spread from one industry to another, because, given certain conditions, 'technical change acquires a cumulative impetus of its own'. Each advance in machine application led to greater specialisation and division of labour ; this simplified the individual work-movement and reduced it to a simple routine-affair which could be performed by a new machine ; this brought about yet further inventions.

Too much emphasis on mechanical inventions or technical changes, however, is misleading. Industrial inventions are largely social products : 'the questions that are posed to the inventor as well as the materials for his projects are shaped by the social and economic circumstances and needs of the time'.[1] Unless the economic *milieu* is favourable, solution of a problem in principle will not lead to its application in practice. For example, the principle of smelting iron with coal was discovered in 1620, but the prevailing state of industry did not allow its application at that time. The use of wood as the principal fuel for the purpose of smelting iron was relatively more advantageous for the time being. A century later, Darby could put this principle of smelting iron with coal into successful operation, because timber had by that time become relatively scarce and consequently the use of coke had become more profitable. Let us take another example from the cotton textile industry. In the beginning of the 18th century there was an ever-increasing demand abroad for English textile goods. But under the existing system it was impossible to increase production very much because the textile industry suffered from a serious un-balance in that the supply of yarn fell much short of the weaving potential of the weavers. The weavers, indeed, were often idle for lack of yarn but the spinners were always busy. A weaver working full time would use up the yarn produced by five or six spinners. The lack of balance was further aggravated due to the invention of flying-shuttle by John Kay in 1733, which enhanced considerably the weaving capacity of the weavers. The weaver now began to operate the shuttle by pulling strings instead of by passing it from hand to hand,

[1] Dobb, *op. cit.*, p. 269.

backwards and forwards. By the use of this device 'broad cloth' could be woven by one man, instead of by two standing side by side, as formerly. But as yarn was scarce at that time, the flying-shuttle was of little practical use. Some change, therefore, was necessary in the method of spinning if flying-shuttle was to be used and if production of cloth was to be increased. This necessity for improved means of spinning provided the initial impetus for a series of inventions which brought about an entire transformation of the textile industries[1] and were to develop into the Industrial Revolution. As Prof. Birnie has rightly observed, technical inventions were but a secondary phenomenon; for it came, as it must, in the wake of expansion of markets which made possible the use of machines for mass production.

The second most important cause of the Industrial Revolution was the impact of ideas. According to Knowles, the nineteenth century is an outcome of the French Revolution championing the cause of "freedom, liberty and equality", combined with the new mechanical inventions which emanated from England. The result was the simultaneous removal of physical and legal disabilities.[2]

Some historians like to explain the Industrial Revolution in terms of changing human attitude towards life. According to them, the Industrial Revolution was the result of the emergence of business-enterprises led by men who found in risk-taking and money-making their chief interest in life; by men who were out to make a fortune rather than just a living. In their view the Industrial Revolution was the product of forces which could not be adequately accounted for by economic, political and technical factors. The Schumpeterian hero, the 'innovating entrepreneur', played a central part in the Revolution.[3] But most of the historians of economic development have not accepted such explanations. In fact, the economic scene in the 19th century England presented a combination of circumstances quite exceptionally favourable to flourishing of the Industrial Revolution. They were: (*a*) cheap labour supply; (*b*) technical

[1] For details of the inventions—Hargreave's spinning-jenny, Arkwright's waterframe and Crompton's mule, see Chapter VII.

[2] L. C. A. Knowles, *The Industrial and Commercial Revolution in Great Britain during the Nineteenth Century*, pp. 5-7.

[3] Meier and Baldwin, *Economic Development*, p. 169.

changes increasing productivity of labour ; (*c*) vastly expanded market. All these factors which made the Industrial Revolution possible were 'clearly the product, in large measure, of the stage of development which Capitalism in Britain had already reached, and not the fortuitous results of circumstances external to this process of development'.

B. CHARACTERISTIC FEATURES AND CONSEQUENCES

(1) *Discovery of Steam-power and Inventions of Machines*

The Industrial Revolution brought about a momentous change in the 'structure of industry'. This change varied from industry to industry and from country to country. The essence of this change was the substitution of machines for tools. While the tool is set in motion by men's physical strength, the machine is set in motion by some natural force like water, wind or steam. In the previous centuries absence of a good motive-power restricted the progress of inventions of machines. Wind was unreliable, water-power scarce and unsatisfactory. Sometimes there was too much water and at other times too little ; during the winter the freezing of a stream brought water to a standstill. Discovery of steam-power removed all these difficulties. *Steam made practicable the use of machines and the use of machines brought about the most fundamental change in the structure of industry.* It is precisely for this reason that Marx described the invention of steam-engine as a crucial factor in the Industrial Revolution. The demand for machinery and engines led to the phenomenal growth of iron industry ; at the same time the need for coal as a source of power brought about great advances in coal-mining.

(2) *Rise of Factory System*

The technical progress achieved in industry radically transformed the nature of industrial production. Before the revolution, production was carried on a small scale ; production was organised under the domestic and the putting-out system. In his small work-shop the craftsman was independent of external control. The

[1] Dobb, *ibid.*, p. 257.

widening of market brought about uncertainties in demand and supply conditions and necessitated *separation of trading function from manufacturing functions.* The trading function was handed over to a specialist, a merchant capitalist ; the 'master' had now to depend on him for supply of raw materials and sale of products. This subordination of the master became complete after the invention and introduction of machinery. Production with machine required large capital which was not within the means of an ordinary craftsman. Factories using machinery and mechanical power and employing a large number of wage-earning workers were established by men with sufficient capital. The handicraftsman at first tried to resist 'wage-slavery' and retain his independence ; but the fierce competition of machine-made goods forced him to give up independent workshop-production and to enter the factory. *The rise of factory system marked the advent of modern capitalism* where the capitalist was no longer a simple trader, but a captain of industry—organiser and planner of production.

(3) *Change in the Form of Business Organisation*

As a result, there was a marked tendency towards large-scale production. Apart form an increase in the size of industrial units, there was an enlargement of business units by conversion of single proprietorship firms into partnership and joint-stock companies. While this change in the form of business organisations was necessitated by the requirement of large amount of capital, the necessity of eliminating competition led to *another institutional change : development of various forms of trust organisations.*

(4) *Change in Agriculture and Transport*

The technological progress had its impact on agriculture and transport.[1] Scientific farming and animal-breeding greatly increased the marketable agricultural surplus and closed the 'wage goods gap' which is considered indispensable for further industrial development.[2] Revolutionary changes in the means of communication further widened the markets.

[1] For details see Chapters III and IV.

[2] Nurkse, *Capital Formation in Under-developed Countries.*

(5) *Demographic Changes*

During the Industrial Revolution, the population of England increased at a fast rate. In 1750, it was 6 million ; in 1801 it became 9 million (i.e. a fifty per cent increase in fifty years) ; in 1851 it became 18 million (i.e. a hundred per cent increase in fifty years) ; in 1901 it became nearly 37 million (i.e. another hundred per cent increase). Before the Industrial Revolution, most of the people lived in villages and the most thickly populated parts of England were in the counties of the south and east. The north of England was thinly populated. The growth of industries in the coal and iron regions of the north resulted in the migration of population towards the north Increasing proportion of population began to move to towns and cities. The increasing urbanisation brought about the ruin of old social institutions. In a new environment and a new social relationship, a new psychology developed. *The occupation pattern underwent continuous changes.* In 1700, agriculture supported 77% of the total population ; in 1831 in became 28%. The rapidly growing population was absorbed in expanding industrial sector and service sector.

(6) *Location of Industries*

The change in the location of industries after the invention of steam engine was brought about by the fact that an industry has a tendency to move to a place where the cost of transport will be the least. Most of the industries were attracted to the coal and iron fields of the north. The rich coal endowments of the north of England led to the springing of factory towns in Lancashire, Yorkshire and the Clyde Valley, with all the perplexing problems of modern industrialism.

(7) *Change in the Class-Relation of Society*

The Revolutior accentuated individual and class differences. The average industrial worker in a factory in the eighteenth and nineteenth centuries was a pathetic figure—a wage-slave having no ownership over means of production and depending for livelihood entirely on his labour-power. The factory system resulted

in concentration of large number of workers under one roof, sharing the same conditions of life and work. The industrial regions became the 'homes of the proletariat, the strongholds of trade unionism and nurseries of socialism'. Before the revolution the struggle was fought between the feudal lords and the rising bourgeoisie. After the revolution, the struggle came to be fought mainly between the proletariat and the capitalist.

(8) *Change in Trade*

The industrial products, manufactured in large quantities in England, were exported to all parts of the world. Because of her early start, Britain became the 'workshop of the world'. In exchange, she drew food and raw materials from the less developed and undeveloped countries. The terms of trade was very favourable to the industrially advanced Britain ; the British manufacturers made huge profits and re-invested them for making larger profits.

(9) *Change in Balance of Political Power*

The revolution shifted the balance of economic power among the nations of Western Europe. This, in its turn, had political repercussions. England emerged as the most powerful country, both economically and politically. The political supremacy, which France enjoyed in Europe, had rested on i. economic prosperity based on fertile soil and large population. The Industrial Revolution made coal and iron more important than fertility of land and population, and supremacy passed on to England. Germany was richer than France in these crucial factors of industrial success ; as a result, Germany emerged as a stronger power while France declined in political influence. 'Not on blood and iron, but on coal and iron was the German Empire founded,' as Keynes put it.

(10) *Internal Political Changes*

Lastly, the political effects of the Industrial Revolution were important. Before the middle of the eighteenth century

Parliament was representative of the landed interest only. Wealthy merchants and manufacturers, as such, were not eligible for admission to the House of Commons. Similarly, new industrial towns that came into existence with the growth of the factory system were not represented in Parliament. But after the Revolution the demand for parliamentary reform became so overwhelming that it became impossible to exclude the manufacturing interest from their share of political power.

C. WHY ENGLAND BECAME THE PIONEERING COUNTRY

Why the Industrial Revolution made its appearance in Great Britain earlier than in other European countries, and how she retained this supremacy are very interesting questions. In fact, in the years immediately preceding the Industrial Revolution, both Holland and France were ahead of England in many respects. France was a richer country than Britain ; she had a colonial empire, and a large population capable of intellectual discipline of a very high order. She had a great industrial tradition and a great reputation of her products. In some of the industries (e.g. cotton textile) she was ahead of Britain and her people had shown no less inventive genius than the English. Yet she was outpaced by England. L. C. A. Knowles thinks that but for the utter destruction of industrial and commercial life after the French Revolution, France, and not England, might have been the pioneering country in the Industrial Revolution.[1] We can spell out some other factors responsible for Great Britain's supremacy.

Political Stability

The most outstanding circumstance in favour of Great Britain was political stability at home under a centralised Government. Since 1688, she had experienced a high degree of political stability. Though she was involved in the European wars of the eighteenth century, she did not experience the destructive impacts of the wars. A strong centralised government helped the development of a national policy ; and from the prolonged struggle for colonial

[1] L. C. A. Knowles, *op. cit.*, pp. 3-7.

empire in the seventeenth and eighteenth centuries, she emerged as victor. Her naval supremacy enabled her to defeat Spain, Holland and France ; the establishment of the colonial empire in India and America led to a remarkable expansion of overseas market for her newly growing industries. The failure in the international rivalry for colonies restricted their overseas commerce and hindered the prospect of industries in France and Holland. France also suffered from continuous political instability which culminated in the French Revolution of 1789. The political insecurity and economic disturbances caused by the Revolution put France at least fifty years behind Great Britain ; and by 1830 when she had recovered, Great Britain had already become the 'workshop of the world'. The position of Germany was worse ; divided politically into petty states, surrounded by more powerful neighbours, she became a battleground on which the powerful neighbours fought out their quarrels. 'For Centuries, Germany was the cockpit of Europe, and every European war ravaged her fields and drained her resources.' The political obstacles to economic progress of Germany were cleared away only in 1871. Holland had a good financial and banking system, and she had shipping facilities which surpassed those of any other nation in Europe. She had enough supply of capital and a large market in the Indies. She had a small population which might have stimulated the adoption of machinery. But her major difficulty was her political system—the want of a strong central government capable of pursuing a strong national policy.

Social Mobility and Civil Liberty

From another point of view, the political and social condition of Great Britain was favourable to industrial progress. In other countries of Europe, the social system was inflexible and could not respond to changes in economic conditions. Serfdom lingered on in various countries (except in France) till the middle of the 19th century. Working people were legally tied to the soil and so the newly started factories suffered from the problem of scarcity of labour. But in England, the paralysing influences of feudalism had largely disappeared from her social and economic system, and the doctrine of equality before the law had saved Englishmen

from the worst abuses of feudalism. There was no country where the ordinary man enjoyed a greater degree of civil and religious liberty. Freedom of movement and occupation had created a fair degree of mobility of factors of production. Even class distinctions were not so pronounced in England as on the Continent. 'Inter-marriage between the land-owning and other classes was common, and this infusion of new blood not only invigorated the patrician stock, but helped to keep the aristocracy in touch with the rest of the nation.'[1]

The industrial progress of other European countries was also hindered by obstacles to internal trade in the form of internal customs barriers. France was divided into four custom areas, each with a tariff wall. Germany was divided into 350 independent states, each separated from its neighbours by a tariff wall. Britain alone among European States enjoyed the blessings of internal free trade.

Economic Advantages

Apart from the political and social circumstances mentioned above, there were certain other economic advantages which enabled Britain to play the part of an industrial pioneer. These were : (*a*) *availability of enough capital* for industrial investment, (*b*) availability of a rapidly *expanding market for creating 'demand for investment'*, and (*c*) opportunities for *formation of skill.*

Britain had enough capital for industrial investment. The development of her *woollen industries* had brought large sums of money into the country which were seeking an outlet for investment. As her exports exceeded imports,[2] the balance was settled by *imports of bullion and other precious metals* from abroad. In fact, the British merchants of the 17th and 18th centuries had accumulated vast resources from foreign commerce and plunder. The *religious influences* of the period also helped internal saving to some extent. A well-developed *banking system* mobilised this saving and made them available for industrial investment. The establishment of the Bank of England led to the creation of an integrated money market in England to which funds were

[1] A Birnie, *op. cit.*, p. 4.

[2] *See* Chapter I, Section G.

attracted from all over the world. The London Discount Market began to provide all forms of financial facilities needed for exports and imports. Great Britain became the financier of great constructional works—railways, docks, electric power, telegraphs, telephones, etc.—all over the world.

The objective conditions necessary for creating 'demand for investment' were also present. Due to the early protective policy of the government, the main industries in England (wool, cotton, silk, etc.) enjoyed a monopoly of the home market. But far more important than the home market was the colonial and the foreign market. The establishment of the vast colonial empire in India and America led to a remarkable expansion of market for her newly growing industries. The colonies supplied the cheap raw materials not produced in England, and bought from England costly manufactured goods. Increasing plunder of India came to be associated with the growing prosperity of England. The Indian market formed the basis of the vast cotton manufacturing industry of Lancashire.

Along with the expansion of market there were other factors which made investment more profitable. The cheap labour force and the waves of inventions paved the way for large-scale production. Some of the pioneers were seized with a sense of mission, but the overwhelming majority of them were prompted simply by the prospect of fabulous profit.

So far as formation of skill is concerned, England was fortunate in having some initial foreign help. Owing to political and religious disturbances in Europe, a considerable number of skilled workers had settled in England during the Middle Ages. Gradually, English artisans acquired experience of various industries. As machine-industries were gradually developed, the burden of experiments fell on these artisans, and this meant the evolution of a race of skilled and trained workers such as no other country possessed.

Extensive shipping connections had been another cause of expansion of British industry and trade. The English captains who were 'found anywhere in the world' were the best agents for British trades.

In short, the early start in industrialisation helped to develop in England a race of bankers, merchants, manufacturers and

captains, 'who were able to visualise the world as one market', and this significant attitude enabled Britain to play the part of an industrial pioneer.

Natural Advantages

Some authorities, however, emphasise the importance of her natural advantages. According to them her geographical position promoted the development of shipping. Because of her peculiar geographical position, no part of the world was inaccessible to her ships. Her coastline was full of harbours, rivers perfectly navigable, climate suitable for hard labour. Mineral resources were abundant and the vast supply of high quality coal and iron, in close proximity to each other and to the coast, were highly favourable to industrial development. Abundant and accessible supplies of coal gave her a cheap motive power and large-scale export of coal facilitated industrial expansion in many ways. Thus according to G. W. Southgate, 'it is not too much to assert that if iron had not been available for the construction of machinery and steam engines, if there had been a lack of coal to smelt it and to drive the engines, the industrial expansion of the period could not have taken place.'[1] The experience of France and Germany seems to confirm his opinion. Some other writers emphasise the importance of the size of her population. According to them, owing to the shortage of labour, labour-saving devices became necessary and led to the series of inventions.

Attitude towards Life

From the above discussion, it would appear that most of the factors enumerated above to explain the early start of Great Britain are really conditions 'necessary' for accelerated industrial development; they cannot be considered as 'sufficient' to explain the early start. Even when we admit that Britain's economic and political background was suitable for vigorous industrial growth, one question still remains unanswered. The question is: what triggered off the development? Some authorities would like to explain this in terms of 'changing human attitude' towards

[1] G. W. Southgate, *op. cit.*, p. 122.

life. The breakdown of the Scholastic Metaphysics with the Renaissance of the sixteenth century, and the impetus given to experimental philosophy by Bacon paved the way for a realistic attitude towards life. The traditional contempt of the landed aristocracy for industry and trade began to lose force and the rise of individualism by regarding private vices as public virtues allowed unlimited scope for the free play of self-interest. Thus a mental environment was created in which individual initiative was allowed unlimited freedom. Human attitude towards economic activity greatly changed; production-units governed by the traditional outlook of the peasant and artisans were displaced by 'business enterprises' led by 'men who found in risk-taking and money-making their chief interest in life'; by men who were out to make a fortune rather than just a living. Thus, according to this group of writers, this characteristic of modern Capitalism was the cause, rather than the result, of the Industrial Revolution.

D. HOW ENGLAND MAINTAINED HER SUPREMACY

Britain was not only the pioneering country in the Industrial Revolution, she was also able to maintain her industrial supremacy during the whole of the nineteenth century, in fact, up to the beginning of the First World War.[1] The industrial supremacy was the result of a number of factors. Firstly, Britain had a long start which enabled her to develop a race of skilled and trained workers which no other country in the world could possess. Secondly, she was able to develop a race of manufacturers, merchants and bankers who were highly specialised in manufacturing, exchange and finance and could view the world as one market and who 'found in risk-taking and money-making their chief interest in life'. Thirdly, her geographical position, abundant and accessible supply of coal and availability of high quality iron in close proximity helped her not only to attain supremacy but also to retain that supremacy for a long period of time. Fourthly, her extensive coal exports

[1] According to Prof. Knowles the period falling between the French Revolution of 1789 and the outbreak of the First World War in 1914 constitutes the nineteenth century for the purpose of studying the world economic development.

and colonial compulsions compelled her to develop shipping connections throughout the world and to provide docks and other facilities in foreign ports for bunkering ships. The English ships were found any where in the world. These ubiquitous tramps[1] had given her facilities for the receipt and despatch of goods which were unrivalled by any other country before 1914. As the captain of the English ship went all over the world it was his business to get freights, and he was willing to carry for anyone who would charter him, but he wished above all to go back to England, and would work towards that in getting cargoes.

Lastly, her long start in developing intimate financial contacts with other nations and the early development of the London Money Market as the international money market and the financier of great construction works such as railways, docks, telegraphs, telephones, mining, plantations, etc. in different parts of the world helped her to maintain her supremacy right upto the First World War. All nations wanted to purchase goods from Britain because the financial settlement was very easy. The long-term capital investment in foreign countries yielded huge dividends. The engineers and directors of these concerns were also generally Englishmen who were naturally in favour of placing orders for construction materials and for other goods in the U.K. All these factors and the vast colonial empire ensured a steady demand for British goods in the overseas market.

Thus the early start, the abundant supply of coal, the skill of the British artisan, the ubiquity of the British shipping, the universality of the British financial organisation, the magnitude of the British foreign investments—all combined to ensure her pre-dominance in the last century.

[1] Knowles, *op. cit.*

CHAPTER III

BRITISH AGRICULTURE

A. EARLY STAGE

TILL THE Industrial Revolution, agriculture far exceeded in importance all other types of economic activity. In every type of economic activity, man was a member of a group : an artisan belonged to the guild of his craft, a trader to a merchant guild ; similarly an agriculturist was a part of the manorial system. A manor was a large estate consisting usually of a single village and an area of land surrounding it. It was enclosed by a hedge which acted as a protection from wild animals, robbers or outlaws. The hedge also acted as a boundary separating one manor from another or from wilderness. A manor had a lord who held the estate from the king who was the absolute owner of all land. The king himself possessed many manorial estates ; great nobles were the lords of many manors usually scattered throughout the country ; a large number of manors belonged to the Church.

Manorial System

The ideal of the manorial system was self-sufficiency ; cultivation was carried on for subsistence and not for marketing. The manors acquired great self-sufficiency in food, clothing and building of shelters ; they relied on towns for the supply of luxuries like silk, velvet, lace, ribbons, needles, etc. for the ladies of manor, and implements of iron and steel, salt, etc. The town-people, in turn, relied upon manors for the supply of food. But it must be noted that inter-dependence was not great ; reduction of trade with 'outside world' (i.e, world outside a manor) was always encouraged. In transactions money was scarcely used and barter-exchange was the general practice. But as trade with towns became more common, money also came into wider use.

A large part of arable land of the manor was held by the lord ; a part was held by free holders and a part was assigned to the serfs. The serfs had no legal title to their holdings ; they held land by custom only, and in law lands belonged to the lord. So the serfs had to render the customary agricultural services to his lord. On the lord's land he had to work two or three days in a week. He was obliged to make certain payments in cash or kind during the festivals. He could not leave the manor without his lord's permission, which usually was not granted. If he fled, he was brought back and punished.

The pastures, the woodlands and the wastelands were held in common between the lord and the peasant. The arable lands were not fenced and hence the name 'open field system'. The total holding of any one man was not consolidated : it was scattered intentionally. The purpose of scattering was 'to ensure an equitable distribution' of good and bad land. This 'strip-system', however, resulted in much wastage and inconvenience.

Cultivation was carried on by groups, not by individuals. The system of cultivation was regulated by custom. Either 'two-field system' or 'three-field system' was universally practised. Collective husbandry did not allow enterprising men to make experiments. As all were bound to follow the customary sequence, any improvement in agriculture was impossible.

B. AGRARIAN REVOLUTION OF THE 16th CENTURY

The manorial system lasted for a long time. But towards the end of the middle ages changes began to take place ; forces started operating within the system which caused its final dissolution in the period between the fourteenth and early sixteenth centuries. The result was a partial destruction of the medieval village community and the displacement of collective husbandry by a modern tendency towards individualist farming. The transition from medieval to modern times was accompanied by so profound changes in the rural economy that historians of English economic development describe them as 'Agrarian Revolution of the sixteenth century'.

Commutation

The must important force responsible for the break-up of the manorial system was the substitution of money payments for labour services, known as commutation. Prosperous serfs, in manors near the towns, purchased their freedom by offering a price. The lord did not refuse to commute the serf's obligatory services because he was the gainer. An eager hired labour, always afraid of losing his employment, was more efficient than an unwilling serf. The lord could pay wage-labourers with the money he received from his serfs as price of freedom and economise in estate management and labour supervision. This slow process of commutation was checked by a great scarcity of labour after the *Black Death* in the mid-fourteenth century[1]. The labouring population immensely decreased in numbers: free labourers demanded extremely high wages; and the serfs tried to escape to other parts of the country where they were welcomed with open arms. Parliament at that time represented the landed interest, while the labourers and serfs had no political rights. So Parliament came forward to help the lord, and passed laws to freeze the level of wages. Further grant of commutation to the serfs was also refused. But 'the laws of demand and supply' continued to operate, and wages of free labourers continued to rise. And the discontent of the serfs found expression in the *Peasant Revolt* (1381). The revolt was crushed but the fear of another rising and the difficulty of tracing the fugitive serfs forced the landlords' consent to commutation. By the middle of the fifteenth century it had become widespread and by the early sixteenth century most of the English peasants gained personal freedom.

Rise of Commercial Spirit

During the sixteenth century we find a transition from the medieval to the modern times. The tide of changes touched almost every aspect of human life. "The bitter desire for gain

[1] The plague epidemic of 1348-49 reduced population of England from over four millions to about two and a half millions. The mortality involved nearly one-half of the people.

took possession of men's mind, completely expelling the medieval ideal of the sanctity of poverty. Money became the measure of all things, and the search after riches, the only rational pursuit".[1] The new acquisitive spirit worked most powerfully in trade and industry, but its results are seen most plainly in agriculture against a background of rural custom and prescription.

It is first in England that the landowners came under the influence of commercial ideas. In the sixteenth century, the first *Enclosure Movement* furnished a remarkable example of the working of this new commercial spirit. Since pasture farming required less labour than tillage, wool production became more attractive in a period of rising wages. This attractiveness further increased because of a rise in the price of wool due to a brisk foreign demand, while the price of corn remained stationary and relatively unprofitable. The newly acquired commercial spirit led the landowners to substitute sheep-rearing for corn-growing on their estates. First, the holders of scattered strips agreed to exchange them with a view to consolidating their holdings and enclosing them with hedges. Hence the name 'enclosure movement'. Then the lord turned his land into pasturage. Next, he encroached on the wasteland and in the woods. By custom, wasteland and woods were 'common land' which were specially useful to the small farmer for grazing his cattle and collecting woods. The loss of common pasture brought about the ruin of the small farmer. Finally, the lord directly attacked the tenants, evicted them from their holdings, consolidated and turned them into pastures. The lord had few legal obstacles to encounter for in that age, as in others, it was very difficult for the poor to obtain justice. Districts were depopulated and whole villages allowed to tumble into ruin; a few herdsmen lived where once had been the abode of a thriving agricultural community.

Their occupation gone, the serfs and the peasants left the manor to seek employment in the towns. There were very few employment opportunities even in towns and the newcomers swelled the already formidable bands of vagabonds. Pauperism became a serious problem and the State had to step in to slacken the pace of the enclosure movement.

[1] A. Birnie, *An Economic History of British Isles*, Chapter VII, p. 71.

Positive Aspects

The Agrarian Revolution produced distress. But its positive aspects were far more profound. The medieval village community and the system of communal cultivation were destroyed in about two fifths of England and replaced by the modern system of individualist farming and production for market. It relegated customs and traditions to the background and made it possible to make experiments with new crops and new methods of cultivation. Of course the process was not completed ; but the first step had been taken in the process of removing obstacles to technical progress in agriculture.

C. EIGHTEENTH CENTURY : SECOND AGRARIAN REVOLUTION

Second Enclosure Movement

In the middle of the eighteenth century the 'openfield system' of cultivation with all its ills still existed in about half of England. Cultivation was carried on in the traditional method : the three-field system and rotation of crops. This was wasteful since it involved leaving one-third of the cultivated area idle every yea r. In the eighteenth century population was increasing at a fast rate and more food was necessary to feed them. It was also generally recognised that consolidation of holdings was absolutely necessary to improve productivity of land. Since Parliament at that time was dominated by powerful landowners, legislation necessary for consolidation was passed without resistance. Where the cultivators were tenants, forcible evictions were conducted on a large scale. Where proprietary rights existed, enclosure was carried through by private Act of Parliament. Commissioners were appointed to redistribute land and to give each proprietor a consolidated holding in place of his scattered strips. The commissioners recognised only legal rights and most of the privileges, based on customs which the peasants hitherto enjoyed, were not recognised. The peasants, therefore, did not get compensation for the loss of grazing and woodland 'rights'. Moreover, what was not given to other claimants became the property of the lord, who thus became the owner of

vast stretches of woodland and pastures. Apart from landlords, other rich men were also eager to purchase landed property because the ownership of property was associated with prestige and social status of a man during the period. In fact, it was virtually a passport to Parliament. The peasant, now in possession of a consolidated plot of few acres of land, faced serious difficulties: he had to meet the expenses of enclosing it with fence; he could not raise as many cattle on his small farm as he could when he had access to the broad common pastures of village. Fewer cattle meant less natural manure which, in its turn, meant less production of crops. These circumstances forced the small peasants to part with their plots and migrate to towns. The disappearance of this class of peasant proprietors was a serious loss to English social life.[1]

But this separation of the peasant from the land and the consequent emergence of the difficult problem of rural and urban proletariat were the price that had to be paid for technical progress. The Second Enclosure Movement destroyed the last vestiges of communal husbandry in England and put in its place a system of large individual farms cultivated by the tenant farmers and hired labourers. This marked the rise of Capitalism in agriculture.

Improvement in Method of Cultivation

The most important consequence of consolidation of holdings and concentration on land-ownership was a marked improvement in method of cultivation for increasing yields and reducing cost of production. Formerly, the cultivators employed three methods for replenishing fertility of soil: (*a*) fallowing of land, (*b*) the rotation of crops, (*c*) the use of animal manures. The practice of rotation of crops was based on the general experience that different crops absorb different elements from the soil; and if two types of crops (say wheat and barley) are grown alternately on the same plot of land, the land retains its fertility longer than if one crop is grown continuously. But only rotation of crops was not enough to restore fertility. It had to be supplemented

[1] This rural *bourgeoisie*, known as 'yeomen', played a very important part at many critical moments in seventeenth-century history.

by the practice of fallowing—leaving each field uncultivated every two or three years so that 'fertilising influences of the sun and air might restore fertility'.

The obvious wastage involved in the system was effectively checked with the introduction of 'green crops' and winter roots. Winter roots (e. g. turnips, beetroot, etc.) can be so sown in such a way that hoeing can be carried on while the crop is growing so that fallowing becomes unnecessary. The green crops (e. g. clover, rye-grass and other artificial grasses) derive their nourishment from the air and not from soil so that soil obtains a rest even when crops are grown. The introduction of these new crops made fallowing superfluous. Fallowing disappeared and a new and more extended rotation of crops came into existence. [e.g. (1) wheat ; (2) any green crop ; (3) barley or oat ; (4) any winter root]. The winter roots and artificial grasses led to a great improvement in the quality and quantity of live-stock. The resulting increase in the supply of natural manure improved the yield of cereal crops in such a marked degree that in the subsequent decades a smaller area devoted to cereals produced a greater output.

Role of Landlords

It is no accident that pioneering work in this field was done by British landowners. The rise of Capitalism in the field of industry and trade created a slowly emerging capitalist class whose new prestige was very much envied by the landed aristocracy. They were not slow to see that the rapid growth of population and its increasing concentration in cities had transformed production of food and other industrial raw materials into the most profitable undertaking. Jethro Tull (1674-1741), a barrister turned gentleman farmer, invented drill-sowing, deep ploughing and machine hoeing. His achievements roused so profound an interest in English society that George III himself established a model farm at Windsor and began to contribute articles on scientific agriculture under the penname of Farmer George. Lord Townshend (1674-1738), an ex-politician, exerted himself to popularise introduction of winter roots in England and earned the honour of being called 'Turnip Townshend'.

Robert Bakewell (1723-95) discovered the principles of improved animal-breeding as a result of which average weight of sheep and cattle trebled during the century.

D. NINETEENTH CENTURY

Progress in Drainage, Mechanisation and Manures

Like the Industrial Revolution, the Agricultural Revolution was a gradual and a relatively slow process. The notable advances in the art of agriculture continued to spread in many directions even in the nineteenth century. During that century, agricultural progress took three directions mainly : better drainage, the increasing use of agricultural machinery, and the introduction of artificial manures.

To improve productivity it is always necessary to carry off surplus water from the soil. A method of underground drainage was invented in 1764 by Joseph Elkington. Another far more superior system was invented in 1835 by a Scotsman. The use of cylindrical tiles for underground drains came in a little later when the progress of machinery had cheapened the manufacture of cylindrical tiles.

The second problem was shortage and high cost of labour. This gave rise to a series of invention of mechanical appliances, of which the most important was the invention in 1879 of 'String Binder'—a machine which reaps the corn and automatically binds it into sheaves. It must, however, be remembered that the effect of machinery on agriculture had been much less revolutionary than on industry. The clue to this difference lies in the fact that nature plays a far more important part in agriculture than in industry.

The invention and application of such contrivances as the String Binder, the Steam Tractor and the Electrical Plough has economised the labour used on the farm, but has not solved the problem of how to increase the yield of soil. This has been the task of the agricultural chemist. A great German chemist, Justus Von Leibig, rose to the occasion. In his epoch-making book, *Chemistry—its Application to Agriculture* he proved that the four main elements of plant life were nitrogen, phosphorus, potassium

and lime. Armed with this knowledge, agricultural chemists could now manufacture artificial fertilizers and relegate the spectre of world shortage of food to a remote future. The first successful factory for the making of chemical manures in England was founded by a young landowner, Lawes who also established a famous experimental farm at Rothamsted in Hertfordshire. Since then, the production of artificial manures has grown into an important industry in Great Britain.

By the third quarter of the nineteenth century, British farming had reached such a high level of technical perfection that, in the opinion of competent observers, it was nearly 60 or 70 years ahead of the agriculture of France.[1]

Further Enclosure

The period of the French Revolution and Napoleonic wars (1793-1815) was one of great prosperity for landowners and farmers. Between 1750 and 1801 the population of the country had increased by roughly fifty per cent. But in spite of improvement in the art of cultivation, the supply of food could not keep pace with demand. As the price of corn rose continuously, larger and larger areas were brought under cultivation and rent on land and the incomes of the landed gentry registered a continuous rise. The high price of corn again accelerated the enclosure movement, and by the middle of the nineteenth century the small holders practically disappeared as a class. The result was that agricultural popoulation in England continously declined. From 34 per cent at the beginning of the century, it went down to 16 per cent in 1851 and 11 per cent in 1860.

Large-scale Farming

During the later nineteenth century, the concentration of landed property in England reached its highest point. According to the somewhat unsatisfactory statistics of the *New Domesday Book* (1876), a quarter of the soil was owned by 1,200 persons and a half by 7,400. The small cultivating owner farmer has not

[1] Birnie, *op. cit.*, p. 258.

entirely disappeared but by 1896 their number has come down to only 66,700.[1] After annexing all land already cultivated, the landlords turned their attention to the large tracts of waste ground scattered up and down the country. Soon a time came when the community began to suffer through the loss of opportunities of exercise and recreation. This was the inevitable result of large-scale capitalistic farming. Even in the beginning of the nineteenth century, Parliament was the parliament of landowners, and so, no opposition was offered to this new enclosures. As the century wore on however, the activities of the enclosing landlord met with resistances. The General Enclosures Act of 1845 ordered a certain proportion of enclosed land to be set aside for allotments and for public recreation, and similar provisions were inserted in subsequent statutes of 1876 and 1899. This legislation saved many valuable open spaces for the community, but it could not restore the class of rural *bourgeoisie*.

Golden Age of English Agriculture

The thirty years (1846-1874), which followed the repeal of the Corn Laws, were years of unprecedented prosperity—the *Golden Age of English Agriculture*. The repeal of the Corn Laws had no adverse effect on agriculture, for America's mass exports had not yet begun, and Europe was too occupied with political questions to compete seriously with English produce. Owing to discoveries of gold in Australia and the establishment of the railways in England, the third quarter of the nineteenth century was a period of rising prices and of general prosperity (the Great Mid-Victorian Boom). There was super-abundance of employment; workers were better off; there was increasing demand for foodstuffs; and price was very remunerative. Important institutions like the Royal Agricultural Society, the Royal Agricultural College, etc. were established.

Foreign Competition

After 1875, the good days came to an end. Due to natural calamities, harvest in most of the years was poor. Outbreak of

[1] Birnie, *op. cit.*, p. 260.

diseases among farmstock also caused enormous loss. To fill the cup of misery of British farmers, agriculture was now exposed to the full force of foreign competition. The establishment of Trans-continental Railways in North America had transformed the virgin soils of the prairies into a huge wheat-producing region. When steel-ships propelled by steam engine revolutionised ocean-transport and brought down the cost of transport, the American wheat exports began to flood the English market. Grain also poured in from Canada, Russia, India and Australia. Improvement in refrigerating processes facilitated import of cheap mutton from Australia, beef from the Argentine and canned fish from the U. S. A. Prices in general, but agricultural prices in particular, suffered a collapse. Price of wheat which was roughly 50*s.* per quarter in 1875 dropped to 32*s.* in 1885 and 17*s.* in 1894. Rent steadily fell and land went out of cultivation. Capital ceased to be invested in land and all improvements stopped. Agricultural labourers deserted the countryside and flocked to the town. A large number of young labourers migrated to Canada, the U. S. A. and Australia in search of a better prospect. This decline in agriculture continued in the early years of the twentieth century. The area under wheat declined roughly by 50 per cent between 1870 and 1911 ; in the same period area under grain declined roughly by 40 per cent. In 1841-45 enough wheat was produced in England to feed 90 per cent of the population but in 1936 it could feed hardly 11 per cent of population.

E. TWENTIETH CENTURY

Dairy Products, Fruits and Vegetables

The ultimate cause of this distressing state of affairs and the remedial measures that should be adopted were discussed by a number of commissions and committees. Following their recommendations, English farming tried to mitigate the effects of foreign competition by changing its own character. Wheat and mutton were replaced by dairy produce, fruits and vegetables, because their perishable nature afforded some natural protection against foreign competition.

Revival of Small Holdings

At the beginning of the century the land question began to take on a new aspect and opinions were frequently expressed that industrialisation in England had proceeded too far, and that a *back-to-the-land* movement was necessary in the national interest. It was also realised that the advantages of large-scale production are not so pronounced in agriculture as in industry. Expert opinion went in favour of establishment of small holdings cultivated mainly by the farmer and his family. Political and military considerations prompted a more self-sufficient agriculture but because of scarcity of labour and consequent high wages and of low price of foodgrains, the big landholders had turned their holdings into pastures. To avoid this harmful diversion of land a revival of small holding was considered necessary. On social and sentimental grounds too, it was considered desirable to revive a class of peasant cultivators. The government stepped in to revive small holdings but because of lack of co-operation of the landlords, initial success was insignificant. Between 1907 and 1914 only few thousands of small holdings were created. The co-operative movement which could help small farms in obtaining credit and in marketing products also made little headway. So the radical thinkers advocated more stringent measures for curing maladies of agriculture—'the least controlled of all monopolies in England'.

Impact of the First World War

During the war (1914-18) the submarine menace made the nation understand the danger of relying almost entirely on imports of foreign food. The necessity of producing more food led to the reconversion of grass land into arable land. The Corn Production Acts (1917) guaranteed a minimum price for foodgrains and a minimum wage for the agricultural labourers.

The Great Depression

The Great Depression (1928-32) caused unemployment in industrial sector and depressed agricultural price to unremunerative

level. Added to this was the world-wide slump of food prices. British agriculture was exposed to full blast of foreign competition. A policy of price-support to home produce was necessary to prevent conversion of land into pastures ; but that made price of foodgrains higher and added to the miseries of unemployment. The government adopted a compromise policy ; it guaranteed a minimum price for wheat produced in the country, and established Marketing Boards to regulate selling prices.

Impact of the Second World War[1]

When the Second World War broke out in 1939, Great Britain had to depend on foreign supply for roughly 70 per cent of her food requirement. She had to take vigorous measures to produce as much food as possible. Grass land was ploughed up, park and golf-courses were turned into corn-fields. In all counties War Agricultural Committees were set up to supply machinery and fertiliser to the farmers. The Committees directed landowners as to the crops to be grown and methods to be adopted. Scarcity of labour was overcome by the use of prisoners of war, the Women's Land Army and other voluntary workers. These measures went a long way in increasing production and by 1945 production of wheat and potatoes almost doubled. For stimulating production, the wholesale price of foodgrains was allowed to rise ; but retail prices were kept at a reasonable level by subsidies and a rigorous system of price control and rationing.

Post-War Period

Even after the war, emergency measures in the food front were not slackened. Rising trend of agricultural prices throughout the world made it imperative that "as much possible of nation's food" must be produced within the country. By the Agricultural Act of 1947 passed by the Labour Ministry, very sweeping powers were given to County Agricultural Committees (peacetime version of County War Committees) to dictate to the landowners how land in their possession should be utilised. Any

[1] For details see Chapter XXI.

owner of a farm whose work was not up to the required standard of efficiency might be evicted. Thus, "though the ownership of land remained in private hands, the owner (or his tenant) was no longer to be allowed to use, or misuse, his land as he thought fit. Private right was to be subordinated to public interest."[1]

F. INTERACTION BETWEEN INDUSTRIAL AND THE AGRARIAN REVOLUTION

Rapid growth of industries, in a capitalist economy, presupposes the existence of a cheap and vast supply of labour (or a 'reserve army of labour' as Marx called it). In the 16th, 17th and the first half of the 18th centuries, the rate of growth of population was not very high and, therefore, the natural rate of increase of population could not meet the growing need of industries. The Enclosure Movements of the 16th and 18th centuries solved this problem of cheap supply of labour by creating a vast army of landless proletariat. The Agrarian Revolution helped industrialisation also in another direction. Long before the Industrial Revolution, landowners in England came under the influence of commercial ideas. The first Enclosure Movement furnished a remarkable example of the working of the new commercial spirit. As a result, productivity per man and yield per acre increased considerably. In the initial stages of industrialisation, this supplied both food and man-power for further industrial expansion.

The Industrial Revolution, in its turn, brought about a change in outlook in agriculture. The 'agricultural industry' became possessed of the 'capitalistic spirit' which manifested itself in the search for new methods of cultivation, scientific animal breeding, large-scale use of chemical fertilisers and invention of mechanical implements.

[1] Southgate, *op. cit.*, p. 231.

CHAPTER IV

REVOLUTION IN INLAND TRANSPORT AND SUBSEQUENT DEVELOPMENTS

PROGRESS OF industries and commerce necessitated revolutionary changes in the means of communication ; for otherwise, further widening of markets would have been impossible.

A. ROADS

Turnpike Trusts

Before the Industrial Revolution trade and commerce was limited and there was no system of good roads. Even main roads connecting important towns were earthen tracks unsuitable for carriage. In the rainy season, they were nearly impassable on account of mud. Robbery and accidents were common ; men made wills before undertaking a lengthy journey. In the 17th century, Turnpike Trusts were organised for the construction and maintenance of roads. Toll bars were placed across roads and tolls were levied on all travellers ; the difference between the money received in the form of toll and the cost of repair constituted the profit of the Turnpike Trusts. But the system did not become common and roads remained as inadequate and as bad as ever. Travelling by coach required enormous time ; a journey from London to Edinburgh took a fortnight. Transport of goods was very difficult ; goods wagons could make little progress on the soft uneven earthen tracks and therefore the cost of transport was enormously high. In the second half of the 18th century needs of trade and commerce accelerated the construction and maintenance of roads. Between 1760 and 1774 more than 452 Turn-pike Trusts were organised. The system achieved considerable success and there was notable improvement in the conditions of roads. But in spite of this success England was far behind France in systematic road constructions.

Technical Improvements in Road Construction

Towards the end of the 18th century, coinciding with the Industrial Revolution, there was notable advance in the technical art of road construction. John Metcalf ("Blind Jack of Knaresborough") made a wonderful road connecting Lancashire and Yorkshire, through cuttings of hard sandstone and over a mountain-bog previously supposed to be impassable. Two different industries were growing up in two countries and hence communication was essential for industrial growth ; Metcalf made growth possible. Thomas Telford and John McAdam revived the technical art of making hard, smooth road-surfaces (the art had been forgotten since Roman times). Even today, many roads in England are made up on the macadamised principles (i.e. principles laid down by McAdam).

In the 19th century, the toll bars acted as a check to commerce, and the Turn-pike system came to be looked upon as a hindrance to expansion of trade and commerce. The work of Turn-pike Trusts was gradually handed over to local authorities.

Twentieth Century

In the beginning of the 20th century, development of motor traffic made old methods of road construction and maintenance inadequate ; widening, straightening and resurfacing of old roads and construction of wide roads with extremely smooth and durable surfaces became imperative. In 1909, the government directly stepped in and instituted a Central Road Fund. The proceeds of taxes on motor vehicles were paid directly into it and from it grants were made to local road authorities for construction and maintenance of roads. In 1937, the Ministry of Transport took over thirty main roads (known as Trunk Roads) of nearly 4,500 miles.

In 1947 when Labour Party came to power, long-distance road haulage was nationalised. But when the Conservative Party came back to power, by an act of 1953, it initiated a process of de-nationalisation.

B. CANALS AND INLAND WATER TRANSPORT

The Dutch engineers of the 16th and 17th centuries perfected the art of making artificial waterways. But until the middle of the 18th century the significance of canal-building and water-transport was not properly recognised in England. Since the middle of the century, when her growing industries required cheap transport of bulky raw-materials like coal, iron, clay, etc. the relative advantages of canal and water-transport had been fully realised ; and the great age of canal building began.

Bridgwater Canal

The Duke of Bridgwater, who wanted to carry coal from his mines in Lancashire to the great city of Manchester, found road-traffic extremely expensive. He employed James Brindley, a man with great natural mechanical skill, to build a canal. Brindley planned and built a canal (which is known as Bridgwater canal) connecting Manchester with the Duke's colliery at Lancashire. As a pioneer he had to overcome great engineering difficulties ; to avoid contact with a turbulent river, the canal was carried over that river by a bridge (the system is known as aqueduct). This was the first canal of a new type in England and it was in every way successful. Price of coal was considerably cheapened in Manchester and the Duke made a fortune. This stimulated the interest of others and something like a 'canal mania' followed.

Immediate Benefits

By the beginning of the 19th century England possessed a complete network of artificial waterways from which growing industries derived immense benefit. The most important beneficiary was cotton textile industry which had to depend on imports for its raw materials and on exports for its market. Until the third decade of the 19th century the railways were unknown, and for imports and exports the textile industry had to depend mainly on canals. The economic gains that accrued to other industries were also by no means negligible. The cost of carriage of coal was reduced to one-fourth and the factories and blast

furnaces could now open out on convenient sites. Heavy building materials could be moved with facility, thus allowing the growth of new towns. The movement of food, from the agricultural areas in the south and east to the large towns and industrial areas in the north and west, became easier and cheaper. This extension of market for agricultural produce exercised a highly beneficial effect on agriculture.

But the age of canals, Arthur Birnie points out, corresponded to a definite stage in English industrial development. The canals along with other factors, helped industrial development to reach such a phase in the first half of the 19th century that they themselves became unable to cope with the growing needs of industry and commerce. A speedier means of transport—railways—brought about the decline of the canal transport. The competition was partly unfair ; in order to eliminate competition Railway Companies bought up about a third of the canals and allowed them to fall into disuse. The result was that links between different canals were affected and the canal system as a whole was disrupted. The canal companies were unenterprising ; they made no attempts to meet the competition of railways by improving their system.

Ship Canals

This period also witnessed the construction of Ship Canals which are, really speaking, mere extensions of the sea. Freight difficulties at Manchester were sought to be removed by the construction of a Ship Canal from Liverpool to Manchester. The canal which is 35 miles in length is considered to be a triumph of modern engineering. It has made Manchester practically a sea-port ; it ranks as the third port of the U.K.

Nationalisation of Canals

In 1909, a Royal Commission, appointed to enquire into the condition of inland water-transport, recommended that the canals which connected important estuaries (e.g. the Mersey, the Humber, the Thames, the Savern) should be enlarged to accommodate large barges. As the existing companies could

not be expected to undertake the improvement, the Commission recommended nationalisation. Political reasons, opposition of the railways, the World Wars and the consequent financial difficulties delayed the implementation of the recommendation. At last, by the Transport Act of 1947, the Labour Government nationalised water-transport; and all canals, except the Manchester Ship Canal and the Bridgwater Canal, passed under the control of the Transport Commission. In 1956, at an estimated cost of £5·5 million, a five-year development plan for the canals was put into operation.

The canal system has not entirely lost its usefulness. If the canals are integrated, widened and modernised, they can still be used for the conveyance of heavy and bulky goods for which speed of transport is not essential.

C. RAILWAYS

In the second quarter of the 19th century, roads and canals were unable to cope with the needs of industry and trade, and the railways were a natural outcome of the pressing necessity for speedier means of transport. In the 18th century, railways were used for horse-drawn traffic, specially for carrying coal. But nothing significant occurred until the invention of steam-engines and its application to locomotives. After a long series of experiments in Great Britain and France, the superiority and practicability of steam locomotion came to be finally established by the success of George Stephenson's engine, the 'Rocket'. The Stockton and Darlington Railway was opened in 1825 and with it began the 'railway age'.

Peculiar Features of Railways

High Cost: Before we examine the history of the British railways, it is necessary to point out the unique features of railway system in Great Britain. Mr. G. W. Southgate has admirably shown why the initial cost of constructing railways was enormously high in Great Britain.

(1) Cost of pioneering: Since it was invented in Great Britain, cost of experiments had to be borne by the pioneers.

When other countries built railways, they could utilise the experience of the pioneers.

(2) The people were conservative; they doubted the efficacy of the new means of transport. The vested interest—the canal companies, the Turn-pike Trusts, etc.—created obstacles.

(3) Railway projects had to receive sanction from parliament after satisfying it regarding the profitability and practicability of the project. The Parliamentary Committees which examined the various schemes were mainly concerned to prevent the invasion of existing property rights by the railway companies. The land-owners demanded abruptly high prices and the companies had to pay heavy sums by way of compensation.

(4) Most of the hauls were short and short hauls were relatively expensive. The construction of large number of tunnels and bridges involved further expenses.

(5) To avoid accidents, Parliament demanded great solidity of construction and adoption of additional safety devices. All these factors added very materially to the initial cost. According to a reliable estimate of 1849, while the average cost of constructing a mile of railway track in Great Britain was £57,000, in Prussia it was £10,000 only.

Private Ownership and Control: Another important feature of British railways is that unlike the case of other European countries the task of building it up was left almost entirely to private enterprise. The State asserted a general right of control but it did not use its power to promote the laying out of a national railway system on a systematic plan. It was left to private promoters to decide which centres should be linked up and which direction the routes should take. It did not even think of enforcing a uniform railway gauge. Numerous short lines of different gauges were built so that the running of through trains was impossible. When other countries built their railways, the pathetic experiences of British railways were utilised, and they planned long-distance national systems from the outset.[1]

Huge capital was required for financing the construction of the railways and usually it was unlikely that private individuals would undertake financing such projects. In other European

[1] Birnie, *op., cit.*, pp. 39-44.

countries the State played an important part in promoting railway communications. But in England no financial help came from the State. Hundreds of industrialists had made large fortunes during the early phase of the Industrial Revolution and they were eager to invest accumulated capital in the building of railways, because rapid rate of expansion of trade and commerce ensured the prospect of great and immediate profit. In other European countries trade and industry were comparatively backward and railways offered no prospect of immediate return. The supply of private capital, therefore, was inadequate and the State had to play a more important part in building railways.

Another peculiarity of the British railways is that they were originally intended to serve as special communication ways only. They permitted the running of privately owned trucks and carriages, and like the Turn-pike Trusts or the canal companies, received toll money. Soon, however, they realised the importance of becoming carriers; and circumstances forced them to become carriers as well as toll-takers. Even today, a good many goods wagons on the lines are privately owned.

Early Experimental Stage

The 'railway age' began in the second quarter of the 19th century. The Stockton and Darlington Railway was opened in 1825, and Stephenson was employed as an engineer of the company. When the company began to operate, the prices of coal at Darlington dropped from 18*s*. to 8*s*. The success of the line led to the establishment of other lines and in 1830 the Liverpool and Manchester Railway was completed. The directors of the company offered a prize of £500 for the best locomotive; Stephenson won the prize with his 'Rocket'. The financial success of the initial lines led first to extended construction, generally useful, and then to wild speculation, culminating in the 'railway mania' of 1843-44. The great financial crisis of 1847 was largely the result of foolish and ill-considered railway projects.

Consolidation and Amalgamation

Down to the forties, the railways were in the experimental

stage. When the success was assured, the movement towards consolidation and amalgamation began. The uncertainty and delay caused by the transit of passengers and goods over sections of lines having independent control were a serious inconvenience to the public and the railway companies soon came to realise the advantages accruing from unified control. The movement toward amalgamation was spearheaded by George Hudson—a financial genius known as the 'Railway King'. By 1850, the English railways were transformed from a large number of small disconnected lines into a small number of large railway systems. There was probably no sphere in which the advantages of combination and monopoly were more obvious. In other countries, the advantages of a single monopoly railway was realised from the beginning. But the economic thinking of the period in the U.K. regarded all monopoly, even State monopoly, as undesirable and Parliament tried to maintain freedom of competition in the field of transport by encouraging the competition of railway with railway and of railway with canals and roads. But Parliament could not prevent the railways from drawing together by means of working agreements.

Unfair Monopoly Practices

Soon unfair monopoly practices by the railways gave rise to public resentment and Parliament was called upon to protect the interest of the users. By Gladstone's Act of 1844, Parliament reserved the right to purchase all future railways at discretion, and to revise fares and freight charges where a line was earning a dividend of more than 10 per cent ; a Parliamentary Train—one train per day, stopping at every station and conveying third class passengers at a moderate rate—was established.[1] Various acts were passed but before 1873, the extent of state regulation and control was negligible.

Demand for Nationalisation

A definite breach with the *laissez-faire* principle took place between 1873 and the outbreak of the First World War. The increasing competition from America and Europe threatened

[1] Cf. 'Janata' trains in India.

industrial and commercial supremacy of England and the trade and industry demanded government interference in the affairs of railways. The workers who suffered terribly from long hours of work and low wages also demanded nationalisation of railways.

Amalgamation under Government Patronage

The railways are a vital factor in a nation's military efforts and, therefore, during the World War of 1914-18, the railways had to be taken over by the government. But after the war, in spite of widespread public demand for nationalisation, the private ownership was retained and the management was handed over to private companies. However, from the experience of unified control and management of the railways during the war, the government had become convinced of the advantages of amalgamation, and in 1921 an Act was passed by which one hundred and twenty-one of the railways of Great Britain were grouped into four great companies—the Great Western, the Southern, the London, Midland and Scottish and the London and North Eastern. So after nearly a century of development, Britain at last obtained a rationally planned railway system.

Competition from Motor Traffic

In the twenties and thirties, a serious competition from motor traffic created difficulties for the railways. The road transport had the inherent advantage that it was convenient (because it conveyed people or goods from door to door), time-saving and sometimes economical. An additional advantage of the road transport lay in the fact that while the railways had to abide by some government regulations, the motor-transport was free in this respect. In 1938, all the four railway companies made a public appeal for a "Square Deal". Some concessions were granted but the earnings of the companies continued to decline.

Nationalisation

During the War of 1939-45 the railways again passed under the control of the government. The task of repair and replace-

ment had to be completely neglected and this led to alarming deterioration in the physical conditions and working efficiency of the railways. In 1945 when the Labour Party came to power, the nationalisation became a hotly debated issue. The argument in favour of nationalisation was that necessary repair, replacement and renovation involved such huge expenses as could not be borne by the private companies. By the Transport Act of 1947, the railways were nationalised and placed, along with canals and road transport undertakings, under the charge of British Transport Commission. Thus, after a century of development of railways, Britain became fully convinced of the necessity of a monopolistic transport system and of the logic of state-monopoly of this tremendously important public-utility industry.

After nationalisation, immediate restoration and rehabilitation programme was carried out and in 1956, a bold 15-year modernisation plan was launched. The plan included improvement in tracks and rolling stocks, securing higher speed in main-line trains, fitting of vaccum brakes, improving passenger coaches and replacement of steam locomotives by electric and diesel traction.

Economic Effects of Railway Building

As the railways are one of the most important external-economy-radiating industries, the economic effects of the introduction of railways were profound. Analysing the causes of the great mid-Victorian boom (from about 1850 to 1873) Prof. Rostow brings out the importance of railway-building as one of the three most important factors initiating and sustaining the trend.[1] Again in explaining the causes of the Great Depression (from 1873 to about 1896) he singles out a drastic fall in the demand for rail-irons and rail-machinery as one of the most important factors. In the first trend period, England built her own railways and built railways in other countries. As a consequence, her coal and iron industries experienced an unprecedented prosperity. The second trend period is characterised by a world-

[1]The other important factors are : *(a)* European wars and *(b)* world-wide gold mining (Rostow, ***British Economy of the Nineteenth Century***, pp. 2-26).

wide slackening in the railway-building, and consequent decline in the demand for iron, coal and machinery.

Railways made possible a national, instead of a local, market. Cheap and rapid transport removed the difficulty of obtaining raw materials and fuels from far-away countries. Before the 1830's, as almost all the coals mined had to be transported by water, only those coalfields near the coast or near a coal consuming industry like iron-making could be profitably exploited. The railways by opening up the inland coalfields, permitted a very big expansion of output. Similarly, in the 1850's and 60's, railways made possible the opening up of new iron ore-fields. It also made it possible to explore previously inaccessible markets. Natural limitations on the size of the firm were removed and business units became larger and larger. By creating further mobility of factors of production, it greatly intensified the forces of competition in the economy. This intensified competition was sought to be resisted by a tendency towards amalgamation and mergers. The railways themselves showed the way.

It also affected the distribution of towns. Railway towns like Crewe and Swindon sprang up quite suddenly. Many unimportant villages became important towns, while previously prosperous places which were not connected by railways lost their importance.

The social consequences should also be noted. Railways accelerated urbanisation and gradual disappearance of the old values. The railway workers' union became a very important and militant section of the British Trade Union Movement.

CHAPTER V

BRITISH SHIPPING

IMPORTANCE OF internal and external water transport in the economic life of a nation cannot be over-emphasized. Because of her geographical position, the importance was and is still more crucial for Great Britain. She needs an extensive shipping for feeding her population ; her industrial supremacy depended on import of raw materials and exports of manufactures ; her naval supremacy was essential for the preservation of the vast empire and for the defence of the country.

A. EARLY HISTORY

Navigation Acts

As compared with Venice and Holland, England did not possess considerable shipping in the early Middle Ages. Her trade was mainly carried in foreign ships. When the mercantilists advocated a strong, self-sufficient national state, the government took several measures to protect and stimulate British shipping. These measures, popularly known as the Navigation Acts, encouraged British shipping to an admirable extent. After the defeat of the Spanish Armada, England became supreme over the seas.

Evolution of the Steamship

The steamship came into existence in the first quarter of the 19th century. In 1802 a steamship, the *Charlotte Dundas*, designed by an Englishman, was launched in the river. In the next few years many passenger steamers were constructed in England and by 1818 steamer services had been established between Liverpool and Glasgow and between Dover and Calais. But the first steamship which left the shelter of rivers to venture out to the open seas was constructed by Robert Fulton, an American. In 1819,

the Atlantic was crossed by the *Savannah*, the American steamship. It had to rely on its sails for the greater part of the voyage ; steam was used only when wind was unfavourable or when the sea was calm. Ships propelled entirely by steam were built in 1833, when *Royal Williams*, a Canadian steamship, crossed the Atlantic. Regular trans-Atlantic traffic began in the forties. In the fifties, iron came to be used, in place of woods, in the building of ships, and in the last quarter of the century ships began to be constructed of steel. Great improvements in the methods of steel manufacturing reduced considerably the cost of ship-building. Moreover, as steel-plates were thinner than those of iron, the steamship was lighter and it had higher cargo-capacity. Improvements in marine engineering reduced the coal-consumption by 50 per cent so that less bunker space was required for carrying coal and more space became available for cargo. These improvements in steamships sealed the fate of sailing ships. Until 1870, the merchant fleet of the world (and also of the U. K.) was composed mainly of sailing ships but thereafter because of the technical advances, the steamship began steadily to gain ground. The opening of the Suez Canal in 1869 was decisive factor in the struggle between the two types of ships. The sailing ships, which could not navigate the canal, had to go to the East by a long sea-route. Gradually it was driven from the seas.

Reasons for British Pre-eminence

Partly by state-patronage but mainly by political and piratic methods Great Britain established her naval supremacy in the 17th and 18th centuries. The Industrial Revolution made its appearance earlier in Great Britain and this decisive lead helped her in consolidating her naval supremacy. While British manufactured goods and coal had a market all over the world, foods and raw materials for British industries had to be imported from all parts of the world.

The ships which arrived at British ports with imports could be invariably provided with an outward cargo and consequently, freight charge was considerably reduced. This saving in transport, in its turn, facilitated industrial expansion. As all the

available ships were employed profitably, the ship-building industry attracted huge capital accumulated during the early phase of the Industrial Revolution. The early development of organised banking increased the supply of capital. The presence of coal and iron near the coasts also facilitated the ship-building industry. Lastly, Lloyd's—which used to undertake insurance risks attached to sea-voyage—made an unique contribution in strengthening British ship-building. The British ship-yards constructed ships and sold it to other countries at a fabulous price. According to G. W. Southgate, before 1890, the U. K. constructed about 80 per cent of the world's shipping and owned about 60 per cent.[1] The industry was highly specialised ; it practised elaborate division of labour and employed more than 2 lakhs of workers.

B. RECENT DEVELOPMENTS

In the last quarter of the 19th century, the British mercantile marine had to face a severe competition. The phenomenal growth of British shipping roused political suspicion in other European countries. The economic advantage of an extensive shipping was also fully realised and the governments of different European countries and the U.S.A. began to encourage shipping industry of the respective countries. Germany was a late runner in the race for industrial supremacy but she caught up with Britain and in the last decades of the century she became the closest rival of Britain in shipping industry. In the U. K., this competition from the foreign sources was sought to be eliminated by amalgamation of rival companies. When amalgamation was not practicable, conferences were held to fix freight and to prevent undercutting. Efforts were also made to come to an understanding with the German companies. This conference system was subsequently criticised on account of its monopolistic tendencies. The Royal Commission, appointed in 1906 to investigate into the affairs of the industry, could not arrive at unanimity ; the Minority Report expressed the view that the system had tended to increase freight rates.

[1] *Op. cit.*, p. 265.

First World War

During the War (1914-18), the British shipping suffered heavily as a result of the German submarine attacks. Her very existence depended on replacing those that were lost ; new shipping yards were established and the building continued even after the restoration of peace. By 1920, her floating tonnage exceeded the pre-war level. But in the meantime, other nations also built many ships and though the British mercantile marine was still the largest in the world, it lost its relative importance. In 1890 it contained 60% of the world's floating tonnage ; 46% in 1914 and 36% in 1920.

Inter-War Period

The years between the two World Wars witnessed a drastic fall in the volume of international trade due to depression and rise of economic nationalism. Less shipping was required to carry this reduced volume of trade but actually world tonnage was more than doubled. The competition became fierce and Japan in the Eastern Waters and United States in the Atlantic carried away a major part of the world's carrying trade from English shipping. Faced with the problem of idle tonnage the shipping companies made frantic appeals for State assistance and from 1935 the government granted subsidies and loans to the shipping companies.

Second World War

During the Second World War, the losses of Britisn shipping were great. In spite of great ship-building activities during the war and allocation of 49% of German tonnage to Great Britain,[1] shipping sailing under this British flag declined still further. It was 60% in 1890, 46% in 1914, 36% in 1920, 32% in 1937 and 25% in 1947.

[1] According to terms of peace, German merchant ships were allocated among the victorious powers.

Post-War Period

After the war, British companies purchased few second-hand ships from the United States ; war-damaged vessels were repaired and merchant ships used for war-purposes were re-conditioned. But scarcity of labour and shortage of essential raw materials, specially steel, hampered the process of rehabilitation. The task of reconstruction was vigorously taken up and by 1946, 'more than half the building that was going on in the world was taking place in British yards.'[1] Foreign orders also began to swell. But once again, Germany and Japan emerged as serious rivals and in 1956, Japan surpassed Great Britain in ship-building. Britain's share in the world production declined from one-half in 1947 to one-fifth in 1957. Shipping sailing under the British flag came down to 18% in 1957.

Conclusion

Because of the great progress made by the major world powers in the ship-building industry the relative decline of the British shipping was inevitable in the 20th century. Nevertheless, one must not overlook the fact that a tiny island with roughly 2% of the world population still commands nearly 20% of the shipping tonnage of the world.

[1] Southgate, *op. cit.*, p. 270.

CHAPTER VI

THE POPULATION

A. BEFORE INDUSTRIAL REVOLUTION

Quantitative Aspects

The first Population Census in Britain was taken in the year 1801. For periods before 1801, the historians rely mainly on Gregory King who made a reliable estimate in 1695, when he reckoned the population of England and Wales at 5·5 million. Experts have estimated that in the seventeenth century (i. e. between 1600 and 1699) the population had risen by not more than 1 million, or between 20% and 25%. Indeed, over a period of several centuries, the population was growing very slowly. In spite of a high birth rate, population was growing very slowly because of an alarmingly high death rate caused by "plague, pestilence and famine". The order of the words is significant; sudden death from infectious disease was even more to be feared than shortage of food, itself not a remote contingency.[1] Because English people lived under appallingly unhealthy conditions and had no knowledge of elementary hygienic rules, disease was a constant accompaniment to life. From time to time, there were outbreaks of epidemics. Several serious visitations of the plague occurred from the 14th century to the 17th century. The plague of 1348-49, known as the Black Death, killed about one-third to one-half of the people; population decreased from over four million to about two and a half million. Plague, in fact, was rarely quite absent in England, and the great outbreaks which occurred now and then were merely the more violent manifestations of the great continuing evil. Apart from plague there were other epidemics. Though plague never revisited England after the terrible outbreak in 1665-66, consumption, small-pox, cholera and various forms of typhus fevers ensured the high

[1] Southgate, *op. cit.*, p. 291.

mortality rate. Even in the beginning of the 18th century, average life expectancy was extremely low, and nearly half of the children died before reaching the age of life.

Distribution of the Population

The great majority of these people lived in villages, and with the exception of London, towns were extremely small. None of the modern great manufacturing towns—Birmingham, Manchester or Sheffield—could boast of more than ten thousand inhabitants and modern mercantile centres like Glasgow and Liverpool were no better. But Greater London, which today accounts for one-fifth of Britain's population, attracted even in the beginning of the 18th century some half a million people (i. e. nearly one-twelfth of total population of Britain). It was so because London has always been Britain's largest sea-port, a great trading centre, the seat of industries and of government. A vast army of domestic servants attached to the families of the professional and governing classes added to the overcrowding. And last but not the least, the poor of the countryside were invariably attracted to London because of the great city's wealth. Thus London created 'a strange mixture of splendour and squalor, great wealth and extreme poverty, culture and ignorance, elegance and vice'.[1]

Even in the early 18th century most of Britain's industry was rural. Extractive industries like mining, quarrying, timber-working, salt-making were necessarily situated outside the towns. Similarly, industries which were heavily dependent on fuel found it uneconomic to depend on costly transport, and therefore, were situated outside the towns near the sources of fuel—coal and charcoal. The widespread use of water-power in industry also tended to attract industry into rural areas near the fast-flowing streams. Thus, even the industrial population lived in villages, rather than in towns. There were coal-mining villages in Durham, Northumberland, Stirling and Fife; iron-making villages in the South Wales valleys, Derbyshire and Durham; lace and ribbon-weaving villages in Warwickshire; fustion-making villages in Lancashire; nail-making villages in the

[1] M. W. Flinn, *An Economic and Social History of Britain since 1700*, p. 4.

Black Country ; and cloth-making villages in parts of Britain.

In the absence of good roads most bulk traffic had to be carried by water. Consequently, the basins of large rivers tended to form themselves into somewhat heavily-populated economic regions. Economic life flowed along the rivers Thames, Savern, Trent, Merser, Tyne, and the Firths of Clyde and Forth, as well as round the coasts.[1]

B. AFTER INDUSTRIAL REVOLUTION

Quantitative Aspects

During the Industrial Revolution, in the second half of the 18th century, not only were the new methods increasing the yield of land and labour in agriculture and multiplying rapidly the output of manufactured goods ; the population, too, was growing at an unprecedented rate. *In the two hundred and fifty years before 1750, the population of Britain roughly doubled itself. After 1750, it required only seventy years to double itself again.* In 1750, it was roughly seven million ; in 1801 it became 10·5 million and 14 million in 1821.

During the nineteenth century, there was a threefold increase in population ; from 10·5 million in 1801, it rose to 37·0 million in 1901. But the rate at which the population was growing in the late eighteenth and early nineteenth centuries was not maintained in the late nineteenth century.[2] Following Prof. Flinn it is possible to divide the century and a half after 1600 into three

[1] Flinn, *ibid.*, p. 5.

[2] The censuses of population show the following expansion :

Year	*Population (in millions)*	*Year*	*Population (in millions)*
1801	10·5	1891	33·0
1811	12·3	1901	37·0
1821	14·1	1911	40·8
1831	16·3	1921	42·8
1841	18·5	1931	44·8
1851	20·8	1941	
1861	22·1	1951	48·9
1871	26·1	1961	52·7
1881	29·7		

These figures exclude Ireland.

distinct periods in each of which quite different factors had influenced the growth of population. The first period, in which the very high rate of growth achieved in the later eighteenth century was fully maintained, lasted until about 1820. During this period, the death-rate continued to fall and the birth-rate slightly rose.[1] Between 1820 and 1890, the rate of growth fell from its earlier very high level, though it continued sufficiently high for the population to more than double during these seventy years. From 1890, the rate of growth fell again, reaching a very low level in the 1920's. The rate of growth has since remained very low, a low death-rate having been matched by a correspondingly low birth-rate.

Distribution of the Population : Occupation-wise

Throughout the eighteenth and the early nineteenth centuries, in spite of the steady growth of population, agriculture could not offer any additional employment. The proportion of the total population engaged in agriculture, therefore, steadily declined ; in 1700, agriculture supported nearly 77%, in 1831 it supported 28%.[2] Towards the end of the nineteenth century, when due to foreign competition agricultural prices suffered a collapse, there was a net decline in employment on the land ;[3] and ever-expanding industrial sector and service sector absorbed this rapidly growing surplus population. This involved movement from one occupation to another and from one place to another. In fact, in the nineteenth century England, there was great occupational and territorial mobility of labour and these mobilities were a great asset in a rapidly industrializing country.

Distribution of Population : Geographical

Before the Industrial Revolution, most of the people lived in villages and the most thickly populated and wealthiest parts of England were in the counties of the south and east ; except for some districts the north of England was thinly populated and

[1] Causes are fully discussed in the next section.

[2] It went down to 16 per cent in 1851 and 11 per cent in 1860.

[3] See Chapter III.

almost barren. But in the nineteenth century, new industries grew on the coal-fields and iron regions of the north ; and this resulted in the movement of population towards the north—towards the Midlands, the North of England, the Scottish Lowlands and South Wales. Side by side with the massing of people in the coal and iron regions, there was also a steady trend towards urbanisation ; eighty per cent of them now live in towns of over 10,000.

A new movement of the population was observed after the First World War. The use of electric power made industry less dependent on the coal-fields and industries began to move nearer their markets or ports of export. The older industries like shipbuilding, steel-making and textiles, heavily dependent on coal, were found to be declining ; and much more diversified engineering and light industries came to the fore front. The areas in which the older and declining industries were situated—South Wales, the Scottish Lowlands, etc.—experienced widespread unemployment and became 'depressed areas'.

Emigration and Immigration

During the nineteenth century, these movements of population within the country were matched by equally important movements of the people into and out of the country. Throughout the nineteenth century many parts of British Empire (specially, Canada and Australia and South Africa) as well as erstwhile Empire (specially, the United States) were peopled from Great Britain. But for this immense outflow of emigrants, the rate of growth of Britain's population would have been much faster than it was.[1] Even in 1839, according to a statistical estimate, there were more than 1·2 million British people living overseas. Since then, emigration was at the rate of more than 50,000 every year. During the Great Depression af 1880's emigration reached almost 200,000 a year. Economic development of overseas countries also proved a powerful influence in accelerating the flow of emigrants. The discoveries of gold in California in 1849, in Australia between 1848 and 1851, in Transvaal in the 1880's and the famous *Gold Rush* of 1890's, attracted immense crowds

[1] Flinn, *op. cit.*, p. 250.

of British people to these countries. The contemporary English literature is full of characters who actually migrated or intended to migrate to overseas countries in search of a new life, a new occupation, or a fabulous fortune.

As compared with the immense outflow of emigrants, the influx of immigrants was negligible throughout the nineteenth century. The Irish continued to come in large numbers and some Scottish farmers also settled in Essex.

The picture completely changed after the world-wide depression of 1929-32. The depression led to an almost complete cessation of emigration and since 1930's, there were more immigrants to Britain than emigrants from it. After the Second World War, immigrants were mainly from Poland, Germany and Russia. The question has assumed political-ideological colour, and has little economic significance.

C. ECONOMIC GROWTH AND GROWTH OF POPULATION

How does economic groth influence the growth of population ? We know that the needs of an expanding population bring about rapid changes in agriculture and industry, and that progressively higher output of improved farming and industry makes possible the sustenance of a larger population. The coincidence of the accelerated agricultural and industrial growth in the second half of the eighteenth century with that of the growth of Britain's population presents a test case.

The population of a country increases in two ways : from immigration or when the birth-rate outsrips the death-rate. Apart from immigration, a combination of a reduced death-rate and a higher birth-rate makes for a very fast rate of population growth. The death-rate is reduced when medical science advances, when purer water supply reduces the risk of deadly water-born diseases, and when improved housing and sanitation reduce the spread of diseases. A balanced and ample diet strengthens natural resistance to infection. New industrial inventions eliminate dangers of occupational diseases and risk of accidents. All these factors lengthen the average expectation of life and lower the death-rate. Similarly, increase in wealth which supplies the bare necessities of life, but no more than that, makes possible earlier marriges

and hence larger number of children. But as industrialization proceeds further and average standard of living considerably rises, a larger section of population is urbanized and more avenues of enjoyment opens up. The postponement of the age of marriage and growing popularity of contraceptives, the increasing employment of women and their improving social status—all these factors operate in the direction of reducing the birth-rate.

It has been noted in Great Britain that it took 250 years for the population to double itself before 1750. But after 1750, it required only 70 years to double itself again. These figures indicate that the rate of population increase rose steadily during the late eighteenth and early nineteenth centuries. And it is possible to explain the population upsurge in terms of rapidly declining death-rate. There was some rise in the birth-rate in the eighteenth century; but the declining death-rate was far more pronounced. The death-rate was high in the earlier period because of the high rate of *infant-mortality*. It has been estimated that in families with six children, fewer than three survived ; and in families with more than eleven children only a quarter of the children survived.[1] The second important cause of high death-rate was the lack of knowledge of even elementary hygiene. The hospitals were places where infection was spread rather than prevented. In the absence of the knowledge of use of anaesthetics, surgery was primitive and mostly lethal. Thirdly, the output and consumption of spirits, specially gin which was extremely injurious to health, was high. Encouraged by a very low excise duty in the first half of the eighteenth century, the output of spirits grew about sixfold, and the death-rate rose noticeably. Another important cause of high death-rate was the over-crowding in newly growing towns and the consequent deterioration in sanitation and in the quality of water supplies. Rivers or streams usually provided both the source of water for domestic consumption and an outlet for the disposal of sewage. As the knowledge of disease-spreading bacteria was non-existent, few precautions could be taken to ensure the purity of water for domestic consumption. This led to occasional nation-wide epidemics of cholera and other water-borne diseases.

[1] Flinn, *op. cit.*, p. 32.

Improvements in health services and in the science of medicine took place gradually. Standards of living of some substantial sections of the population were improved in the late eighteenth and early nineteenth centuries. In the diet of the working classes in towns and villages, there was a greatly increased consumption of wheat-bread in place of bread made from coarser grains like rye and oats. The quality and quantity of meat and dairy products vastly improved due to the changes in agriculture and found their way to the menu of better-placed workers. Between 1750 to 1830, though some group of workers were worse off because of progressive decline in their earnings, the class of skilled labourers and mechanics experienced some rise in the wages. On the average, wages and standards of living were improving, leading to greater expectation of life, and a reduced death-rate. A change in the prices of goods bought by the wage-earners also helped the process. Cheapening of cotton cloths enabling the workers to buy cheap cotton clothes instead of expensive woollen clothes brought about a big improvement in standards of clothing and hygiene. This also allowed the worker to save some money and spend it on, say, food. Improved and cheaper soap was also a great help ; people began to wash a great deal more frequently than before and this was highly beneficial to health. Cheaper and more plentiful coal reduced the incidence of rheumatic complaints arising out of damp houses and damp clothes. Certain aspects of social change during the eighteenth and early nineteenth centuries also caused some slight improvement in the public health. It has been suggested that growth of the practice of burying the dead in coffins instead of in shrouds limited the spread of infection. Similarly, when the social evil of gin-drinking became well known, the gin evil was brought to an end by an Act of Parliament in 1751. But improvement in health services took more time. Even in the middle of the nineteenth century, there was no adequate system of drainage in most of the towns. House refuse was not collected and destroyed ; it was deposited in gutters or on waste ground or in odd corners, giving rise, as it decayed, to disease and death. Water-supply was inadequate ; such water-supply as existed was frequently polluted. Public opinion was aroused by the epidemic of cholera in 1847-48, and this led to the setting up of local Board of Health

in any "city, town, borough, parish or place" in which the death rate was high. The duties of these local bodies included the provision of main drainage whenever it was needed, the provision of a supply of pure drinking water, and the cleaning of streets.

All these measures had added up to promote changes in health during the nineteeth century. The cumulative effects of the gradually improving health services and gradual improvements in standards of living led to greater expectation of life, and reduced death-rate.

Again, towards the end of the nineteenth century, the rate of growth of population began to fall, a low death-rate having been matched by a correspondingly low birth-rate. How, then, was the birth-rate reduced ? The fall in the birth-rate was the result of several social trends consequent upon the growth of economy. Factory reform and high cost of education had 'turned children from economic assets into expensive liabilities'[1] ; better education and economic independence made women rebel against the slavery and burden of excessive child-bearing ; advances in medical science and growing popularity of contraceptives made it possible to clearly distinguish between sex-urge and urge for children, and made possible the limitation of the size of the families ; with the improvement in standards of living, tastes for other forms of enjoyment began to increase and this, in turn, increased the desire to reduce the size of the family. The desire to restrict the size of the family, which was confined to the middle classes in the late nineteenth century, began to spread in working-class families in the early decades of the twentieth century. The birth-rate was halved between 1880 and 1930.[2] It is no wonder therefore, that during the 1940's and '50's the rate of growth of population in Great Britain has been lower than in any other nineteenth century decade.

[1] Flinn, *ibid.*, p. 247.

[2] During and after the Second World War, this tendency was temporarily arrested, quite intentionally.

CHAPTER VII

THE TEXTILE INDUSTRIES

THE TEXTILE industries—specially cotton textile—have a romantic history. The supremacy of the East—specially India and China—in the manufacture of cotton textile passed on to the West—specially England—after the Industrial Revolution. In the 20th century a process of reversal set in and by the end of the Second World War it was complete.

Before the Industrial Revolution the manufacture of woollen cloth was the second most important industry (next to agriculture) in Great Britain. The linen industry also made some headway. But the manufacture of cotton goods was unimportant even in the beginning of the 18th century. Two factors hindered the growth of the cotton textile industry. Raw cotton, grown only in the eastern Mediterranean and India, was expensive to import. Secondly, both spinning and weaving were primitive and slow. The eighteenth century saw the removal of both these barriers to expansion. The United States, having won their independence, developed the cultivation of cotton in the southern States. This cheapened raw cotton. Thirdly, a series of inventions revolutionized both spinning and weaving and thus paved the way for the expansion of the industry.

Inventions and their Cumulative Effects

In Arnold Toynbee's view, it was "four great inventions" that were responsible for revolutionizing the cotton industry. The beginning occurred in 1733, when John Kay invented the *flying shuttle* which increased the productive capacity of the weavers. This, in turn, had important consequences for spinning. Weavers now needed more yarn than the hand-spinners could supply. Inventive genius, therefore, turnd to spinning. The first practical success in spinning was gained in 1767 by James Hargreaves, an ordinary weaver, who invented a *spinning jenny*

(3) In Liverpool, Lancashire had an ideal port for the importation of raw cotton and for export of finished goods. Similarly, Glasgow served Lanark. (All these factors were also present in the Clyde Valley ; but since her natural advantages for ship-building were even greater, she concentrated on the building of ships.)

As machinery was used in every process connected with the textiles, specialisation within the industry had gone far beyond mere general localisation of industry. Not only spinning and weaving were carried on in separate establishments ; a spinning firm concentrated upon the production of only a few grades of yarn. Similarly, some weaving firms concentrated upon the production of a few types of cloth. Bradford and Halifax were centres for the spinning of worsted yarn ; the spinning and weaving of wool were carried on at Hudders-field. Dewsbury concentrated on the production of 'shoddy', while 'tweeds' were almost exclusively manufactured in the Colne Valley.

The size of the business units also gradually expanded. With the passing of the Limited Liability Act, the family business or the partnership with unlimited liability gradually gave way to joint-stock limited liability enterprises.

Short History

The English cotton textile industry, almost throughout its career, had to depend on foreign supply of raw cotton. Her internal market also was inadequate for absorbing huge manufactures. Nonetheless, England developed a prosperous cotton textile industry partly by dint of her scientific skill and enterprise and partly by her colonial exploitation.[1]

[1] It was not on the basis of technical superiority of machine industry, but with the direct State assistance of one-way free trade (free entry for British goods into India, but tariffs against the entry of Indian manufactures into Britain) and prevention of direct trade between India and foreign countries by the operation of the Navigation Acts that the predominance of the British textiles was built up. "The cotton and silk goods of India upto the period could be sold for a profit in the British market at a price from 50% to 60% lower than these fabricated in England. It consequently became necessary to protect the latter by duties of 70% and 80% on their value, or by prohibition. Had this not been the case, that not such prohibitory duties and decrees existed, the mills of Paisley and Manchester would have been stopped in their outset, and could scarcely have been again set in motion, even by the power of steam". (Quoted by R. P. Dutt from H. H.

From the last quarter of the 18th century American cotton was imported on a large scale. While the consumption of cotton by the industry in 1700 was only 2 million pounds, by 1832 it rose to nearly 250 million pounds. A sudden drastic fall in the price of raw cotton helped the industry very much. The problem of market for finished product was solved by the exploitation of colonies, specially India. The Indian textile industry was mercilessly destroyed and between 1814 and 1835 British cotton manufactures export to India rose from less than 1 millon yards to over 51 million yards. By 1850 India, which had for centuries exported cotton goods to the whole world, was importing one-fourth of all the British cotton textile exports. During the American Civil War, the supply of raw cotton was cut off and there was a severe cotton famine in Lancashire. Lancashire manufacturers turned to India, Natal and Australia for raw cotton, and in the latter part of the 19th century, raw cotton was largely imported from India. Egyptian long staple cotton also served the requirements of the Lancashire industry.

Developments in the Twentieth Century

Throughout the 19th century the industry made rapid progress and secured a position of pre-eminence in the cotton textile industry of the world. This position had been maintained up to the First World War, when it accounted for two-thirds of the world's cotton textile trade. The industry employed more than 6 hundred thousand labourers and accounted for roughly 25% of the total exports from Great Britain. During the war, the disruption of the sources of raw materials and loss of markets for finished products due to the development of cotton mill industry in India, China and Japan, brought about the decline of the British industry. The position did not improve even after the war. Between the war and the Great Depression of 1929-33, local industry in the East made rapid progress and the cotton mill industry in England continuously declined. As compared with 1912 (i.e. pre-war level) the production of cloth declined to 66% in 1924. Just before the war, India produced nearly 30% of her cotton textile

Wilson's *History of British India*, Vol. 1). For further details see Chakrabarti, Kundu and Patra, *Economic Development of India*.

requirement and the rest (i.e. roughly 70%) came from England ; in 1930, she produced 55%, England supplied 30%, and the rest came nearly from Japan. Similarly, in the vast Chinese market, England's share declined from 50% to 25%.

The situation became more alarming during and after the Great Depression of 1929-33. Export to India declined still futher due to remarkable progress of the local industry even under a policy of 'Discriminating Protection'. Another important cause of this decline was political in nature : the boycott of foreign goods and the 'Swadeshi' movement were specially directed against Lancashire fabrics ; and self-sufficiency in cotton goods come to be looked upon in India as the basic minimum condition for ending the economic exploitation of imperialism. Similarly, the Chinese market was almost lost due to the growth of local industry and higher competitive efficiency of the Japanese texile industry.

We have noted that the British textile industry was characterised by extreme specialisation ; this had helped the industry in improving the quality of products and in expanding foreign exports. But in the 20th century, when the export drastically declined due to price-competition in the foreign market, the minute specialisation became the most important hindrance to adjustment of costs to the competitive levels. In the weaving section of the industry where the small units predominated, the latest cost-saving inventions could not be introduced. While Japan used ring spindles, Lancashire continued with mule spindles. Japan introduced automatic looms but Lancashire still used ordinary looms. The result was high cost of production and consequent shrinkage of exports. This shrinkage, in its turn, created the problem of unused capacity and higher costs.

During the Second World War the industry had to supply huge government orders. It experienced an artificial prosperity and was subjected to stricter government control. By 1940, the problem of shortage of raw cotton became acute. The government selected the best production units to be worked to maximum capacity, and the rest of the mills were closed so as to release man-power for war-purposes.

Peace brought with it the old problems ! The proud people had to preside over the liquidation of the empire, and the export

market naturally shrinked. After 1951 the crisis deepened. The industry which employed 6·25 lakhs workers just before the First World War employed 3·2 lakhs in 1951, 2·5 lakhs in 1956 and 2·4 lakhs in 1959. The high cost of production in England, the growth of domestic industries in the countries which constituted her export-markets, and the superior competitive efficiency of her rivals—all these factors brought about a continuous decline in her exports. The situation further deteriorated when the revolution in Egypt deprived Lancashire of the most important source of superior-quality cotton. Her own home market was invaded by cheaper fabrics from the Commonwealth countries, specially India and Hong Kong.

Attempts at reorganisation of the industry were made after the war. Modernisation of the equipment was undertaken in right earnest and the government promised to pay one-fourth of the cost of machinery. The government also decided to compensate the owners for the scrapping of surplus and out-of-date machinery. But in spite of all these measures, the success of the industry in maintaining even the present position will depend largely on her ability to solve the high wage problem. This high wage was economical when the industry required high-skill labour. But the modern machinery in the industry have made highly skilled labour unnecessary in most of the departments of the industry.

CHAPTER VIII

COAL

THE INDUSTRIAL REVOLUTION hinged on coal and iron. It has been rightly remarked that if iron had not been available for the construction of machinery and steam engines, and if there had been a lack of coal to smelt it and to drive the engines, the industrial expansion of the period could not have taken place. Fortunately for England, there was a vast supply of high quality coal and iron, in proximity to each other and to the coast. Abundant and accessible supplies of coal gave her a cheap motive power; and in addition to that, large-scale export of coal facilitated industrial expansion in many ways.

Early History

Coal had been used for centuries for household purposes; it would have been used more extensively, had not the difficulty of transporting it been very great. Coal, being both bulky and heavy, was not easily carried by land, and for the most part it was carried by water—by coastal or river navigation. Since by far the largest centre for the domestic consumption of coal was London, most of the coal mines were situated in north-eastern England (i.e. near London) on either bank of the rivers Tyne and Wear. The production of coal was small and was hindered by the difficulty of working deeper seams as there was no device of draining water from the depths of pits. Pits tended to be small in size, employing not more than 40 or 50 miners and frequently less than 20.

Inventions

The growing scarcity of timber—the then main fuel—in the eighteenth century brought coal into great demand, and in course of time its use in various other directions came to be recognised.

When the expansion of river and canal navigation opened up new markets for coal, and new industries added to the demand for coal, it became essential for the mining industry to solve the problems of drainage, ventilation, transport, etc.

Drainage : To sink a pit is to dig a well. Water from the surrounding areas drains into the pit, and it becomes impossible to extract coal unless pumping is carried on continuously. Before the eighteenth century, the only satisfactory system of underground drainage was the *adit*, or sloping shaft, down which water could flow, given a convenient hillside on to which the adit could discharge the water. But this form of natural drainage was possible only in shallow pits ; from most of the mines, water was pumped by hand. Early in the eighteenth century Newcomen invented an engine which provided a new and satisfactory method of deep drainage. The Newcomen engine was widely adopted during the first three quarters of the eighteenth century ; nearly one hundred engines were adopted around Newcastle alone. It was not until the beginning of the nineteenth century that it was superseded by an improved engine invented by James Watt.

Preventing Collapse of the Roof : Coal is found in seams, and the task of the miner is to cut the seam out completely. But this may lead to the collapse of the 'roof' above the seam unless measures are taken to support it. In the eighteenth century it was usual to work on the *pillar-and-stall system*, by which pillars of coal were left standing here and there when the seam was penetrated. This was wasteful as well as dangerous. It became usual after 1810 to support the roof with stout baulks of timber.

Raising of the Coal : The raising of the coal to the surface presented yet another difficulty. In the seventeenth and eighteenth centuries coal was carried both underground and to the surface on the backs of women and children. By about 1830 most mines in England began to employ steam engines for their winding gear to raise coal and men to the surface. But there were still not a few pits, mostly in Scotland, where coal was still carried on the backs of women and children. The invention of a wire cable in 1839 made it possible to dispense with this primitive method of raising coal. The concluding decades of the

nineteenth century saw the introduction of mechanical cutters for cutting coal. But as mining labour remained cheap in England, there was little incentive for mine-owners to equip mines with mechanical cutters. As a result, British mines tended to lag behind mines in other European countries.

Transport: In earlier times difficulties of transport limited the expansion of the industry. The construction of the canal system and, later, the network of railways made it possible for coal to be moved economically to all parts of the country.

Ventilation: During the eighteenth century, the problem of ventilation presented great difficulty. Boys were employed down mines to operate trap-doors and fans to control the dangerous gases—explosive marsh gas, suffocating carbon dioxide, poisonous carbon monoxide, etc. There was danger of explosion and suffocation from the ever-present gases which made a miner's life exceptionally hazardous. In 1815 Sir Humphry Davy invented the safety-lamp for miners which contributed materially to reducing the accident rate.

Rapid Progress in the Nineteenth Century

Improvements in drainage, ventilation and transport made possible a great expansion of coal production. More important, however, was the growing demand which added to the profitability of production. The rapid growth of population accounted for some of this increased demand for domestic purpose. Darby's invention of a process by which coal could be turned into coke and used in the smelting of iron had created an important new market for coal. The development of steam engine added to the growing demand. Railways and steamships in the nineteenth century consumed huge amount of coal. In addition, steady growth of factory industries like pottery, glass-making and copper-making speeded up the demand. In the second half of the nineteenth century, a steady growth of the coal export trade gave a further fillip to the growth of the industry. Coal output had probably been barely 2·2 million tons in 1660; this was more than doubled by 1750 when the estimated production was 5

million tons. There was a further doubling by 1800 when nearly 10 million tons were being produced.[1]

The rapid growth of the industry accounted for the growing coal export trade. Moreover it absorbed more and more workers with the passage of time. Thus the industry employed 0·2 million workers in 1850; it employed more than 1·1 million workers in 1913.

War and Inter-War Period

The maximum output was achieved in 1913 and the industry was never again to produce so much coal. During the war labour shortage led to the decline in production, and shipping restrictions led to the decline in exports. At the end of war, for a brief two years, there was a temporary boom in the industry. The prospects of the industry, however, appeared to be gloomy because of a serious decline in demand. As the price of coal was high other sources of heat and power (i.e. electricity and oil) began to replace coal for both domestic and industrial purposes. Progress in railway modernisation, involving electric on diesel haulage, reduced the coal requirements of railways. The establishment of smokeless zones in important towns further reduced the

[1] The astoundingly rapid progress of the industry in the nineteenth century is shown by the following figures:

year	*production (in million tons)*
1800	10
1830	22
1860	80
1900	225
1913	287

The importance of the coal export trade in the phenomenal growth of the industry can be shown by the following figures:—

year	*production*	*export*	
	(in million tons)	*(a) amount (in million tons)*	*(b) percentage of output*
1860	80	—	—
1900	225	50	22%
1918	287	77	27%

demand for coal. Export markets were lost because, in spite of this state of demand, the world supply was increasing at a rapid rate. In addition to that, some countries which had started the industry only recently took certain measures to encourage this basic industry. They protected the home market, gave subsidies to encourage exports and offered many other facilities. Poland, for example, subsidized her exports so that they were able to oust British coal from continental markets like the Scandinavian countries. Lastly, defective organization and consequent high cost of production were in no small measure responsible for the decline of the industry. Coal deposits in England, unlike those of America and of certain continental countries, were geographically scattered. The size of the production-units was small and uneconomic. In addition to that, there was very little planning for future. With no serious problems of selling coal before 1914, the industry had been slow to equip itself with modern appliances. While mining labour remained cheap, as it did until the Second World War, there was little incentive for mine-owners to equip mines with mechanical cutters and conveyors. As a result, British mines tended to lag behind mines in other countries.

Labour Unrest

As all the mines were in private ownership, the problem of shrinking market was sought to be solved by an attempt to reduce costs by lowering wages and increasing working hours. The miners who had been subject to worst type of exploitation resisted this attempt and labour relations in the industry further deteriorated. A Royal Commission under the chairmanship of Sir John Sankey in 1919 had made several recommendations favourable to the miners. None of these recommendations were acted upon, and for many years the industry remained in a disturbed condition. So when in 1925-26 the Samuel Commission conceded 'much to the mine-owners and next to nothing to the miners', an explosive situation developed. The miners ceased work and the Trade Union Congress declared a sympathetic general strike in support of the striking miners. The strike however collapsed within a few days. The workers were humiliated and they remained as discontented as ever.

Other Measures for Reducing Costs

The wages were lowered but this did not solve the problem of the industry. The Mining Industry Act of 1926 made some half-hearted proposals for voluntary amalgamation of mines but few amalgamations resulted. Measures like price-fixing agreements and forward contracting also failed to turn the tide. When the Great Depression of 1929-32 hit the industry, a Central Collieries Commercial Association was formed among the mine-owners. According to the agreement, a basic quota of production was fixed for each member and the monthly production was adjusted by a reference to it. But even this scheme did not improve the position. The Labour Government of 1929-31 made a more determined effort to restore the fortunes of the industry by enacting the Coal Mines Act of 1930. A Coal Mines Reorganisation Committee was established for the reorganisation of the industry by promoting amalgamations. In the beginning, the Committee tried voluntary schemes, but it failed to secure a substantial measure of agreement. Then it applied compulsion and yet its achievements were little because of legal difficulties.

The position of the industry, however, became more desperate as the depression became more acute. Coal output which reached its highest peak of 287 million tons in 1913 fell to 266 million tons in 1924, 244 million tons in 1930 and 207 million tons in 1933. Export fell from 77 million tons in 1913 to 57 million tons in 1933. Employment fell from 1·1 million to 0·8 million.

From the lowest point of 1933 there began a recovery. This was mainly due to the general revival of trade. Trade agreements with Ireland and the Scandinavian countries also helped the process. After 1935-36, re-armament also stimulated the industry.

War and Post-War Period

During the Second World War it proved essential to maintain and improve coal output and coal miners were exempted from military service. Coal-miners took the opportunity to revive old claims and grievances and went a long way to reinstating

themselves as among the aristocrats of labour.[1] In 1942 they secured at last the national minimum wage ; in 1944 the government carried through an extensive overhaul of the entire wage structure in the mines ; and the miners, who previously had been in the lower half of the earnings league, reached 1945 with a level of earnings among the highest in the country. But the miners remained discontented; and it became clear that they would never be satisfied while the mines remained in private ownership.

Nationalisation

As early as 1920, the existing system of mine ownership came under fire. Almost all the ills of the industry—uneconomic size, high costs, lack of safety precautions, antiquated equipments, labour unrest, etc.—were held to be the results of private ownership. The Royal Commission (1919-20) presided over by Lord Sankey recommended nationalisation. But the government did not act upon this recommendation. When the Samuel Commssion (1926) refrained from proposing nationalisation of mines, the industry for many years remained in a disturbed condition. It became clear that the miners would never be satisfied while mines remained in private ownership.

It was only after the establishment of the Labour Government in 1945 that their long-deferred hope was realised. The Coal Mines Nationalisation Act, 1946, established a National Coal Board which was made responsible for the working of the mines.

Since the nationalisation of the mines, substantial improvements have been made in working conditions. The industry's equipments have also been modernised. Yet it can hardly be claimed that nationalisation has fully achieved the necessary reorganisation of the industry.

CHAPTER IX

FREE TRADE *versus* PROTECTION

A. FREE TRADE MOVEMENT

FREE TRADE and Protection are philosophical doctrines as well as practical policies. From the point of view of philosophy, free trade is a natural offshoot of Individualism. Individualism accomplished a great task during the 18th and 19th centuries; it allowed necessary scope for the individual initiative and enterprise which raised England to a position of industrial and commercial pre-eminence. The doctrine profoundly influenced the economic thinking of the period too. We have noted that in the 16th and 17th centuries the growth of great national states like France, England, Spain, Holland, etc. led to an intensification of national feelings. Gradually the mercantile system grew up; it was a strong believer in the benefits of state intervention. It became the duty of the government to regulate the economic activities of the nation and direct them towards making the country rich and powerful. This subordination of the individual to the state and of his economic interest to the needs of the state was vigorously opposed by the rising school of Individualism. The new philosophical doctrine was transferred by the Physiocrats (in France) to the sphere of economics. They preached the benefit of economic liberty. The experiences of mercantilism had already made people thoroughly distrustful of the economic competence of the governments, and hence the doctrine of economic liberty received favourable attention of the leaders of economic thought. Adam Smith, in his *Wealth of Nations*, published in 1776, demonstrated the economic superiority of international division of labour over the ideal of national self-sufficiency. Since Adam Smith's economic reasoning was in agreement with the rising tide of Individualism in the field of philosophy, he was readily accepted. Great Britian became wedded to *laissez-faire* principle and the free-trade argument finally triumphed.

But apart from this philosophical reasons, England had very practical reasons for appreciating a free-trade movement. The logic of economic necessity converted the British commercial and industrial interests to the views of Adam Smith. Until the middle of the 18th century the British industrialists were afraid of foreign competition. The Industrial Revolution altered the picture ; Great Britain was now the most industrialised nation in the world and her manufactures increasingly invaded foreign markets. She also enjoyed a practical monopoly of the chief motive power, coal. So the industrialists united with commercial classes (who were always in favour of removal of protection) in removing the obstacles to the expansion of overseas trade. Industrial protection was abolished in Great Britain almost without controversy.

Corn Laws

The same logic explains why the same thing did not happen with agricultural protection. The landowners now came forward as the chief defenders of the protective system. The British Parliament dominated by landowners stipulated as early as 1773 that corn was not to be imported into England until its price had reached a certain level (this level was fixed at 48 shillings in 1773 and 54 shillings in 1791). In 1815 the Corn Law duties were again imposed. At this time the price of corn was higher than 60 shillings and yet it was stipulated that imports would not be permitted until the price had reached 80 shillings.

The battle between free trade and protection now centred round the question of the Corn Laws. The measures were opposed by the free traders on the ground that these were proposed to secure prosperity of a class at the expense of the nation as a whole. David Ricardo, an avowed enemy of the landed aristocracy, argued that the high price of corn reduced the well-being of all workers—the most numerous proportion of the total population ; it also reduced the profit of the capitalists and thus hampered capital formation on which the economic growth of the entire nation depended.

A group of Lancashire manufacturers formed in 1838 an Anti-Corn Law League. They tried to convince the public that

the national interest would be better served by the export of manufactured goods in return for the import of cheap food-stuffs. They pointed out that the claim of the defenders of the Corn Laws that the protection would stabilise the price of corn and encourage the extension of agriculture at home had been disproved by subsequent events. After a long and bitter struggle the Corn Laws were repealed in 1846, and agricultural protection was abolished. It was a noteworthy victory of the English capitalists : the cheapening of food grains and industrial raw materials reduced cost of production and guaranteed an expanding overseas market.

Politics of the Corn Laws

The politics of the repeal of the Corn Laws makes an interesting study. The statesmen, chiefly responsible for the establishment of free trade in England, were Huskisson, Cobden, Bright, Peel and Gladstone. William Huskisson was the President of the Board of Trade from 1823 to 1827. During this period he made several important changes in the tariff. Following Adam Smith's famous canons of taxation, Huskisson systematically abolished or reduced unnecessary duties. Richard Cobden and his brilliant lieutenant John Bright were leaders of the Anti-Corn Law League. . Provided with funds by the Lancashire industrialists, they employed 'a large corps of lecturers, organised innumerable meetings in towns and country and poured forth a flood of propaganda literature'.[1] The two great agitators and their followers aroused middle-class opinion in favour of free trade. Then came Sir Robert Peel. Peel's work was more important and far-reaching. He was a Tory of the old school but he placed the interest of the whole country above that of his party. In 1841 he formed a Government by defeating his liberal rivals. His party, consisting of landowners, firmly believed in agricultural protection. But faced with chronic budget deficits and industrial unemployment, he realised that increased duties and taxation would not solve the problem. The obvious remedy was to aid commerce. He argued that if the tariffs injurious to

[1] Birnie, *op. cit.*, p. 71.

commerce and industry were removed, the increase of trade and production would be such that the remaining duties would bring in enough revenue more than sufficient to counter-balance the loss incurred. In 1842 and 1845 he carried through two drastic revisions of the tariff. In the mean time he became convinced of the futility of the Corn Laws; and the Potato Famine in Ireland forced him to act as quickly as possible. A destructive rain in 1845 destroyed potato crop all over northern Europe. In Ireland, where potato was the staple diet of the peasantry, a terrible famine depopulated the country-sides. Peel brought a large amount of food-grains from America and finally resolved to abolish the Corn duties. A section of Tory Party refused to follow him and when his proposal was rejected by the cabinet, he resigned. But since the opposition could not form a ministry, he had to be called back. Peel's conversion was complete; in January 1846 he brought forward his resolution for the immediate and permanent repeal of the Corn Laws. The Whigs supported the measure and the voting was independent of party lines. The measure was passed in June 1846; only a nominal duty was retained. The Protectionist avenged themselves by combining to defeat Peel, after which he never regained power.

The repeal sealed the fate of protectionism in England. It was a great victory of *laissez-faire* philosophy and it ushered in a new epoch in English economic history. As food was cheapened, real wages of the workers improved greatly. Peel's work was carried to a conclusion by his brilliant disciple, William J. Gladstone. Like his leader, he gradually changed from a Tory to an advocate of free trade. In the face of bitter opposition from the landed aristocracy and from the House of Lords, he carried through two further revisions of tariff in 1853 and 1860, which reduced the number of dutiable articles to 48 only. (Before Peel, the number of dutiable articles was 1,150.) From 1860 onwards, Britain had become a free-trade country.

B. MOVEMENT FOR TARIFF REFORM

The victory of Free Trade in Britain produced a reaction in its favour on the Continent. But this trend towards a liberal commercial policy was very short-lived; it was followed in the

eighties by a strong protectionist reaction. The continued depression after 1875 raised grave doubts regarding the validity of the doctrine of free trade. The Franco-German War gave a fresh impetus to the growth of nationalist sentiment, and the Continental nations intensified protection of industries. The U.S.A. continued to raise the height of its protection walls. Due to phenomenal growth of industries in those countries the industrial supremacy of Great Britain was seriously threatened. In the changed world conditions, free trade was not advantageous to England. The climax came when cheap American corn invaded the British market. As early as 1887 the Commission investigating the causes of the 'Great Depression' recommended a change from 'free trade to fair trade'. The declaration of the country of origin of the imported goods was made compulsory, and foreigners taking out patents in Great Britain were legally forced to start its manufacture in Great Britain (1901). This movement against free trade gradually gathered momentum under the leadership of Joseph Chamberlain. He argued that a policy of protection could serve two purposes ; on the one hand, it could safeguard the British manufacturers against foreign competition ; on the other, it could bind the colonies closer to the mother country by the establishment of a system of Imperial Preferences. The idea behind Imperial Preferences was this : very high duties should be imposed on articles imported from other than the British colonies and a lower duty should be imposed on goods imported from the colonies ; the colonies, on their part, would give preferential treatment to the British goods. Chamberlain's idea was widely accepted. But it was found that, in its application, it would involve taxation of food-stuffs, because foreign countries could sell food-stuffs cheaper than the colonies could. The British industrial population vehemently opposed this move and in the bitter controversy that followed there was a split in the Conservative Party and Chamberlain had to resign from the ministry (1904). In the general election of 1906 protection was made a definite issue, but the verdict of the electorate went against it ; the Conservatives—the official protectionist party in Great Britain—were decisively defeated by the Liberals who stood for free trade.

C. RETURN OF PROTECTIONISM

Mckenna Duties, 1915

The First World War brought about a major shift away from the free-trade policy. The war invariably led to the scarcity of shipping space and the government found it necessary to introduce some controls over imports. To achieve this aim, the Chancellor of the Exchequer, Reginald Mckenna, introduced in 1915 a series of duties of the imports of certain 'luxury' articles like cars, cycles, clocks, watches, films and musical instruments. Since the general belief regarding the virtues of free trade were still not seriously shaken, it was stipulated in the original Act that these duties would be removed after the war. But the Mckenna duties of 1915 were retained even after the war, although the main reason for their imposition—a shortage of shipping space—had disappeared. 'The thin end of the wedge of protection had at last been driven in.'[1]

Safeguarding of Industries Act, 1921

In the immediate post-war period, there was widespread industrial growth in Australia, Brazil, Chile, India, Japan and many other countries. These efforts were all protected by tariffs. The United States, now the real seat of economic and political power, was maintaining and raising her protective tariffs. France became a specialist in the subtleties of protection by import duty. This spread of economic nationalism had its impact on the British policy as well. Not only the Mckenna duties were retained, and from 1919 an element of imperial preference was incorporated in them; they were supplemented by the Safeguarding of Industries Act passed in 1921. This measure imposed duties of 33⅓ per cent *ad valorem* on the products of a few 'key industries' considered to be vital for national security.[2] In fact, protection was given to certain industries which had,

[1] Flinn, *op. cit.*, p. 194.

[2] Optical glass and instrument, radio valves, hosiery needles, various fine chemicals, and rare earth metals were among the things affected.

under the artificial protection of the war, begun to manufacture certain goods previously supplied by Germany. The Act, by placing a heavy duty on import of these and a long list of minor articles, aimed at saving these 'infant' industries from destruction by renewed German competition.

Protection : an Election Issue

The Safeguarding of Industries Act also permitted the imposition of similar duties for protection against unfair foreign competition. For example, duties were to be imposed on imports which had been cheapend by currency depreciation or were being dumped at prices below cost of production, and which were damaging employment in British industry. Very little action was taken under these provisions, but in 1923 the Conservatives faught the General Election on the issue of solving unemployment by protection, which the Labour as well as the Liberal party decided to oppose. The electorate rejected general tariff protection and the Conservatives were defeated. There was a fleeting remission of the duties by the Labour Government in 1924, but in 1925 they were reimposed and extended. In that year gloves, cutlery, gas mantles, silk rayon and goods made from these materials received protection.

The total volume of protection during the '20's was, by any standard, small, but 'the tariff system was becoming increasingly protective and decreasingly revenue-producing in character'.[1] Free trade was coming under increasingly heavy fire ; even in Manchester, the citadel of free trade, cotton merchants, apprehensive of Indian and Japanese textile imports, were themselves beginning to clamour for a protective tariff.

Depression

The real break from the free-trade policy came during the Great Depression. The world-wide depression that bagan slowly in 1929 gathered momentum in 1931. The dominant factor in international economic relations at that time was the 'evapora-

[1] Youngson, *The British Economy 1920-1957*, p. 59.

tion of international liquidity'.[1] Whether caused by falling prices, non-renewal of foreign loans, the freezing of assets or abandonment of the gold standard, this loss of liquidity put terrific pressure on all countries—especially debtor countries—to export. But these exports were most unwelcome to the receiving countries, for they tended to intensify unemployment and to drain away the recipients' reserves of foreign exchange. Now, even if exports could not be stepped up, imports could be reduced to a minimum. So the result was a general resort to tariffs and, in extreme cases, to quotas. The American tariff was further raised in 1930; in 1931 duties were imposed by Canada, South Africa and Italy; France and Germany greatly increased their use of the strangulating device of the quota.

Import Duties Act, 1932

Britain embraced the 'save himself who can—devil take the hindmost' policy with the passage of the Abnormal Importations (custom duties) Act, 1931. It imposed high duties, up to the extent of 100 per cent *ad valorem*, on imported manufactures for a period of six months. Before this period expired, the Act was replaced in 1932 by the permanent Import Duties Act. It levied a general 10% protective duty on most manufactured imports; provided for reciprocal treatment including retaliation against foreign countries; and established an Import Duties Advisory Committee under the chairmanship of Sir George May to give advice on the imposition of additional protection. On the recommendation of the Committee the government placed early in 1932 duties of 33⅓ per cent on most kinds of steel and steel manufactures. The general level of duties on manufactured goods was raised from 10 to 20 per cent *ad valorem* and duties on luxuries were raised to 24 or 30 per cent.

Bilateral Agreements

An attempt was also made to use the protective system as a bargaining counter to secure concessions which would promote trade in particular channels. On the recommendation of the Committee the government concluded bilateral trade treaties

[1] *Ibid.*, p. 87.

with some countries like Norway, Sweden, etc. with a view to bringing British exports and imports to and from them more nearly in balance. Normally, these countries exported more to Great Britain than they imported from her. The countries were now asked to import more British goods so as to bring about greater equality of their trade with Britain. In return, they were promised tariff reductions.

Imperial Preference

The largest arrangement made to use the protective system as a bargaining counter was that of Imperial Preference.[1] Now that Britain had a tariff, she could offer preferences to the Empire countries in return for appropriate concessions by them. In the Imperial Economic Conference held at Ottawa in 1932, an agreement was reached to the effect that in exchange for increased concessions to be given by the Empire countries to British trade, Great Britain would exempt the Empire goods from the duties imposed under the Import Duties Act of 1932. But the agreement which was reached after hard bargaining did not help Britain much. Empire countries were reluctant to expose their 'infant industries' to the winds of British competition, while Britain could not offer a great deal to food-producing countries like Canada, Australia and New Zealand because she was unwilling to impose heavier duties on food-stuffs imported from non-Empire countries. The results, consequently, were meagre, and most of what was achieved not by lowering tariffs within the Empire but by raising them to those outside.

Ineffectiveness of Tariff Policy

There is no sign that these protective devices improved British foreign trade as a whole during the depression of 1929-32. What was gained by the promotion of trade in some channels appears to

[1] The idea of Imperial Preference, implying preferential treatment given to the mother-country in the colonial trade, arose with mercantilism. By the Staple Act, 1663, this preference was made compulsory on the part of the colonies. By an Act of 1778 the mother-country was given the right to levy such duties on the colonial commerce as would give advantage to the mother-country's trade with the colonies over the trade with foreign countries. Peel's policy of liberalisation of trade removed this practice from the middle of the 19th century. But during the closing decade of the 19th century Imperial Preference came to be associated with the movements, under the leadership of Joseph Chamberlain, for the 'fiscal unification of the Empire'.

have been lost in the more intense competition resulting in the remainder. Diversion of trade by raising tariffs against the non-Empire countries did embitter her trade relations with some countries. The Danish and Argentinian farmers and the German manufacturers were hard hit by this policy. Germany retaliated.

Retaliation

When English currency was depreciated, France discriminated against English goods. Great Britain, therefore, imposed in 1934, a retaliatory duty of 20 per cent on certain classes of French imports. Great Britain also discriminated against Japanese goods to restrict the Japanese imports into the various parts of the British Empire. In 1934 she adopted a quota system to limit the competition of the Japanese goods entering the markets of the Empire.

Post-War Situation

Great Britain emerged from the Second World War with a shattered economy. Her foreign investment had considerably decreased and consequently she suffered from a chronic deficit in her balance of payment. This necessitated the continuance of moderately high level of tariffs. Her participation in the *General Agreement on Tariffs and Trade* (GATT)—an organisation which seeks to remove all restrictive trade practices—led to some reduction in the general level of duties but she was permitted to retain the system of Imperial Preference (now known as Commonwealth Preference). Her political and economic interests prompted her to establish closer trade relations with European countries. For a closer economic co-operation of the Western European countries different organisations had already been established [e.g. 'the Organisation for European Economic Co-operation' ('48), 'the European Coal and Steel Community' ('52)]. In 1957, by the treaty of Rome, six European States (France, West Germany, Italy, Belgium, Luxemburg and the Netherlands) agreed to set up a European Common Market. While free trade would be established within the area of those States, a common traiff wall would be raised against the trade of non-member States. The question of Great Britain's association with the Common Market is still a subject of discussion and controversy.

CHAPTER X

FOREIGN TRADE

A. ROLE OF FOREIGN TRADE IN BRITISH ECONOMIC GROWTH

AT LOW levels of economic activity, production only for the home market is not profitable. Accordingly, production for foreign market is usually the turning point which sets a free-enterprise economy on the road of economic growth. This can be verified from the experience of Great Britain. Throughout the past three centuries international trade has been a strategic factor in British economic growth. The Commercial Revolution of the 16th century and the geographical discoveries had placed England in a favourable position. The development of her vast foreign commerce, during the seventeenth and eighteenth centuries, had brought large sums of money into the country and made possible the primary accumulation of capital. The population of England was small and the home market was not wide enough to allow sufficient scope for large-scale investment. This handicap was removed when extensive use of military and political powers enabled her to acquire a vast empire. The lucrative colonial markets created the objective conditions necessary for creating 'demand for investment'. The extension of demand for manufactured goods reacted on industry and brought about an increase in industrial production far beyond the immediate needs of the home market, leaving an ever-increasing surplus available for exports. These growing exports, in their turn, provided the means of purchasing more food-stuffs and industrial raw materials from abroad. A calculated foreign trade policy was adopted at this stage to destroy the colonial manufactures and transform the colonies into agricultural appendages of British manufacturing capitalism.[1]

[1] For interesting details, see *Economic Development of India* by Chakrabarti, Kundu and Patra, pp. 22-29.

The widening of market provided bases for division of labour, innovation and increasing specialisation ; it gave an outlet to industries which would have operated less efficiently within the confines of domestic demand : foreign investment offered profitable employment to capital which found home prospects unattractive. The expansion of demand for standardised goods and relative scarcity of labour gave a great stimulus to mechanical inventions of the eighteenth and early nineteenth centuries which revolutionised major export industries like cotton, coal, iron and steel. The prosperity of the export industries created new effective demand for other commodities and stimulated all the industries producing for the home market. Exports also stimulated home industries in other ways ; some of the facilities created for the export industries, such as improved transport system, training facilities, or engineering services were also of use to the home industries and export industries by taking away labour from home industries at the same time as they created more profitability for these industries, stimulated the home industries into innovations designed to increase their productivity. Thus 'technical changes acquired a cumulative impetus of its own' and streamlined the productive machinery of the entire economy.

The increasing imports, made possible by increasing exports, had also an important role in initiating the earlier stages of economic expansion.[1] Imports created new tastes, stimulated new energies for work, and a new willingness to make the best use of available resources.

Extensive overseas commerce changed the economic atmosphere of the whole country. Contact with the outside world brought about a fundamental change in human attitude towards life.[2]

[1] W. Arthur Lewis, *The Theory of Economic Growth*, p. 280. Nineteenth century economists such as Malthus and List emphasized this important role of imports.

[2] *Cf.* "Men whose ancestors for centuries had been stay-at-home husbandmen and who had thought hitherto that their little island home was remote from the centre of civilisation became alive to the fact that the world was much larger than had been realised, that it contained many strange lands and wonderful things awaiting discovery, and that they were admirably placed for attempting exploration. In English minds a spirit of adventure was aroused that has never since died away. English ships ventured afar, and before the end of Tudor period the globe has been circumnavigated by Englishmen."—Southgate, *op. cit.*, p. 74.

Production-units governed by traditional outlook of men who tried just to make a living were displaced by 'business enterprises' led by men who were out to make a fortune rather than just a living. In short, the unlimited prospects of profit in foreign commerce helped to develop a race of merchants, manufacturers and financiers who were able to visualise the world as one market, and this played a very important role in British economic growth.

Value of Foreign Trade as percentage of Total National Income

Some idea of the changing weight of foreign trade in British economic growth can be obtained by comparing the value of foreign trade with the value of national income. At the end of the seventeenth century domestic exports and imports of England and Wales were roughly 15 per cent of national income. By the end of the eighteenth century this had more than doubled—to nearly 34 per cent. In the early 1870's when exports reached their peak in relative terms, they were about 22½ per cent of national income. Imports reached their peak of nearly 36 per cent in the quinqennium 1880-4. In other words, in the 1870's, foreign trade accounted for roughly 50 to 60 per cent of national income. Thereafter exports have generally averaged between 16 and 20 per cent of national income. In the early 1950's domestic exports averaged about 20 per cent of national income and imports about 27 per cent.[1]

Relative Rate of Growth of Foreign Trade and National Income

Another aspect of this question of the quantitative relationship between economic growth and international trade can be explored by comparing relative rates of growth in their respective volumes. Throughout the eighteenth century foreign trade expanded at a faster rate than total national income. Between 1700 and 1745 the average rate of growth of trade was roughly 0·7 per cent (per year) while that of total output was about 0·3 per cent per annum. From 1745 to 1771 the rate of growth in international trade rose to 2·3 per cent per annum ; during this period total output was rising at the tate of about 0·9 per cent

[1] Dean and Cole, *British Economic Growth : 1688-1959*, p. 310.

per annum. Finally, in the great upsurge of trade between 1781 and 1800 its rate of growth was no less than 4·9 per cent per annum when total output was growing at about 1½ per cent per annum.[1]

B. HISTORY OF COMPANY TRADING[2]

From the sixteenth century to the eighteenth foreign commerce was carried on by great companies which held charters granted by the Crown ; by the terms of its charter a company enjoyed monopoly of trade between England and some definitely specified part of the world. Individual traders were discouraged because a company had certain advantages over an individual trader. First, individuals might aim at making a fortune in a single voyage and therefore, might not hesitate to use violence and fraud, in order to secure the greatest possible profit. But a company would have to carry on trade year after year and it would, therefore, be anxious to build up a reputation for honesty and fair dealing. Secondly, a powerful company could obtain from alien rulers special privileges which would not be granted to an individual trader. Thirdly, the voyage over the seas was full of perils. The merchant ship was always in danger from pirates. A large company with huge resources could take more effective measures against piracy. Lastly, the government, too, found the company system preferable to that of trade carried on by a private individual, an adventurer or an interloper ; because the

[1] Dean and Cole, *British Economic Growth : 1688-1959*, p. 311.
The nineteenth century trends are illustrated in the following table :
(Compound rates per cent per annum)

	Volume of exports and imports	*Real national income*
1801-31	2.6	2.7
1811-41	4.0	3.1
1821-51	4.4	2.8
1831-61	4.5	2.0
1841-70	4.6	2.3
1851-80	4.[illegible]	2.6
1861-90	3.5	3.5
1871-1901	2.9	3.1
1881-1911	2.5	2.4

[2] The Growth of English Overseas Trade in the Middle Ages was treated in Chapter I.

government could more easily regulate trade and collect duties from a company than from an individual.[1]

The companies were of two types : regulated and joint-stock. A regulated company possessed a charter which enabled its *members* to engage in trade. The company drew up rules, secured privileges from its own government and from foreign rulers, took effective measures in different countries to safeguard the interests of its members. But the company as a whole did not trade. In the joint-stock companies, however, the trade was carried on by the *company* itself, and was managed by paid officials. Members merely provided capital and received profits in the form of dividends on their shares. A joint-stock company was far more monopolistic in character than the regulated companies.

East India Company

The most famous of the trading companies was the East Indian Company, founded in 1600 to develop direct trade with India and the East. When it was founded, it was a regulated company. But difficulties of settling the accounts forced it to be converted in 1657 into a joint-stock company. The Company had the monopoly of trade with the whole of Asia—from 'the Cape of Good Hope to the Strait of Magellan'. The Company was the sole distributor of the goods it imported, and charged any price it liked and could thus make huge profits. The trading depot or factories of the Company were established at Surat (1609), Madras (1639), Calcutta (1650) and Bombay. These factories became the centres of political intrigues in India. From the middle of the eighteenth century the history of the Company is bound up with the extension of British rule in India.

From that time the Company became the ruler of India. Soon this role became more paying than trade as such. The shareholders of the Company reaped huge profits but the officials of the Company acquired more. Very soon India came to be associated with the growing prosperity of England.[2]

[1] Southgate, *op. cit.*, pp. 75-76.

[2] See Chakrabarti, Kundu and Patra, *Economic Developement of India*, pp. 22-29.

The profitableness of the Company's 'trade' attracted hostile attention from the very beginning. Traders began to attack the monopoly position of the Company; the mercantilists did not like the practice of exporting bullions from England (which was necessitated by the fact that while the Company purchased goods from India, it had nothing to offer in return as there was little demand for English goods in the East); industrialists opposed the Company because it could not find a market for the manufacturing industries in England. The opponents of the Company finally succeeded when the Parliament by an Act of 1698, allowed to float a rival company. The new company, however, was amalgamated with the original organisation ten years later. The privileges of the Company were continued for some time longer only by its giving financial help to the government and by bribing the members of the Parliament. But its political activity in India was controlled by the British Government under the Regulating Act of 1773 and Pitt's India Act of 1784. In 1813 the Company lost its monopoly of trade with India. It was abolished in 1858 when the empire was transferred from it to the Crown.

Hudson's Bay Company

The Hudson's Bay Company was established in 1670 and was granted a monopoly of trade in Canada. It developed the fur trade of Canada which proved to be extremely profitable. But it survived the criticisms which were levelled against it, for it successfully stopped the French from extending their influence further in Canada.

South Sea Company

The success of the above two companies both in advancing the interests of Great Britain and in making a fortune for their members, created a mania for establishing trading companies. Many unscrupulous people took advantage of this to cheat the public by floating all sorts of companies, irrespective of their prospects. As for example, the South Sea Company formed in 1711 got the monopoly of trade of the South Seas (the Pacific) and the Latin America. It was advertised that the company would

make huge profits from its monopoly of slave trade and from whale fisheries. Large and wild speculation followed and the price of the share rose from £120 in April, 1720 to £1020 in July of the same year. The company offered the government to take over the entire National Debt, which amounted then to £30 million, and to become the sole creditor of the government. In this operation there were dishonest dealings behind the scenes. When the dividend was declared, it was found to be extremely low. A crash in the price of the shares of the company followed. In the resulting panic, every shareholder tried to get rid of his stocks. The *bubble* that had been created by unholy speculation burst, ruining a large number of foolish investors.

The collapse of the *South Sea Bubble* (1720) created a serious crisis. The public became suspicious of joint-stock finance; legal enactments also made the floating of the joint-stock companies very difficult ; and this was at a time when England needed plenty of capital for financing her developing industries and commerce.

C. FEATURES OF FOREIGN TRADE IN THE NINETEENTH AND EARLY TWENTIETH CENTURIES

The main features of British foreign trade that developed during the nineteenth and early twentieth centuries were—

(1) the tremendous increase in the total volume of foreign trade ;
(2) the change in the composition of trade ;
(3) the change in the direction of trade.

Increase in Volume

The tremendous increase in industrial production, the revolution in the means of transport and communication and the change in commercial policy from protection to free trade led to a phenomenal increase in the volume of British foreign trade. This was helped in no small degree by the great Empire which England had successfully built up in the previous century. Throughout the 19th century both the imports and the exports went on increasing. In 1802 the total trade was valued at £72

million (exports £41 m. and imports £31 m.). During the years 1855-59, the annual average stood at £262 million (exports £116 m. and imports £146 m.). In 1900, it reached 743 million (exports £283 m. and imports £460 m.).

Of course, this rapid growth of foreign trade was not smooth and continuous. There were years in which the volume of trade actually decreased. For example, during the Great Depression of the '70's and '80's, the trade continuously declined. But the overall expansion during the century was phenomenal. The period after 1900 and before the First World War also saw an unprecedented growth of trade. In this period there was a rapid expansion of trade throughout the world and England also shared this expansion. But England did it only in absolute terms. Her relative share of the world trade continued to decline. From a far larger share it declined to 38% in 1876-80 and to 27% in 1911-13. The peak point of England's foreign trade (in absolute terms) was reached in 1913 when her total trade was valued at £1295 million.

Another important feature of this overall expansion was that imports increased more rapidly than exports. This seems to be the result of the increasing dependence of England on foreign countries for the supply of food to her rapidly growing population. The slackening pace of exports in the last quarter was also due to the industrialisation of new countries.

England paid for the excess of her visible imports over visible exports from her receipts from invisible exports. The chief source of the invisible exports was the interest and dividends on British investments abroad. The earnings of shipping, insurance and banking services were also very substantial. They facilitated trade in two ways. First, they facilitated England's trade with other countries. Secondly, by their services to other countries they helped to reduce England's adverse balance of payments.

Change in Composition

Before the Industrial Revolution, Great Britain was exporting raw materials and importing manufactured articles. After the Revolution, specially in the nineteenth century, this position was reversed ; exports consisted mainly of manufactures and imports

mainly of food and industrial raw materials. Imports of grain grew steadily throughout the nineteenth century particularly after the repeal of the Corn Laws in 1846 and later when cheap American wheat began to flood the English market in the last quarter of the century. Meat imports grew rapidly during the 1880's when improvement in refrigeration facilitated import of cheap mutton from Australia and beef from the Argentine. In the same way, there was the fifteen-fold expansion of imports of raw materials between the 1820's and the 1930's. New raw materials—rubber, aluminium, chemicals, etc.—were required for new industries. Again, the enormous expansion of some old industries exhausted Britain's raw material supplies and led to the growth of substantial new imports. Many iron ore-fields, for example, were exhausted, and from 1870's ore began to be imported from Spain and Scandinavia.

Early in the nineteenth century Britain, the leading industrial country in the world, supplied the world with manufactures. With the single exception of coal, her exports in the nineteenth and twentieth centuries always consisted predominantly of manufactures. Exports of manufactures comprised 78% of all exports in 1815. Again, of all manufactured exports, textile accounted for over three-quarters. But as other countries industrialized, their own products began to replace British manufactures in their home markets and the share of Britain's manufactures in Britain's total exports began to dwindle. This decline, however, was not very sharp in spite of the fact that her traditional manufactures faced acute competition in the world market. Textiles, for example, which accounted for nearly three-quarters of all manufactured exports in 1815, steadily lost its preponderance, so that by 1914, they only accounted for half the exports. But new export industries—machine-making, iron and steel goods and chemicals—began to grow in importance.

Change in Direction

The changes in the composition of trade have been accompanied by some significant changes in its direction. Before the Industrial Revolution, an overwhelming proportion of her trade was restricted to Europe. Even early in the nineteeth century,

exports to Europe accounted for 55% of all exports. But her industrial supremacy in the nineteenth century and also her vast Empire had enabled her to establish a footing for her trade in many remote countries, so that in the 1920's her exports to Europe fell to 35%. Throughout the nineteenth century, India steadily consumed British manufactures. Until the rise of her own cotton industry in the twentieth century, she consumed about 40% of all Britain's cotton textile exports. Australia and New Zealand became important markets in the second half of the 19th century. By the mid-nineteenth century, 30% of Britain's exports went to the Empire. By 1930, the proportion rose to 40%. The United States remained an important market and source of imports until their adoption of high tariffs late in the nineteenth century.

D. FOREIGN TRADE IN THE YEARS BETWEEN THE WORLD WARS

Fall in Exports

The war years, 1914 to 1918, created conditions very unfavourable to British foreign trade. The war gave a great impetus to industrialism in the Far East: Japan developed manufactures in textiles and engineering and had an almost free run of the English Far Eastern markets. The war also gave a great impetus to manufactures in Canada and in Australia, and America was not slow to take advantage of the fact that it was impossible for Britain to maintain her volume of exports during the war and the years immediately following it. Moreover, in this period a wave of economic nationalism swept over almost the whole world resulting in a great decline in the volume of international trade. The difficulties were further aggravated by the monetary troubles of the period and by the almost complete disappearance of foreign investment. The world depression of 1929 to 1933 set in motion a train of events which further reduced the volume of international trade. Before that, international trade was inevitably multilateral; the chaos that followed the world crisis brought this system to an end and free multilateral trade began to be replaced by bilateral trading agreements

between the countries. By deflecting foreign trade from its natural course they reduced its volume, and struck a deadly blow at the entrepot trade, and reduced very considerably the earnings of British tramp steamers.

Extent of Fall : The decline in British exports was striking. To some extent it was the counterpart of a general stagnation in international trade, but British exports fared worse than those of most countries. In 1913 they had amounted to 13·11 per cent of the world total, but this proportion fell to 11·10 per cent in 1927, 9·82 per cent in 1932, and 9·87 per cent in 1937.[1] Exports (in physical terms) never returned to the per-1914 level until 1950. The decline in physical terms was very much but it was concealed to some extent by the changes in money values and by the fact that terms of trade with agricultural commodities-exporting-countries moved steadily in-favour of Great Britain.[2]

Causes : A large part of the British export's decline can be traced, first, to the loss of markets for two or three commodities of traditional importance. Whereas in 1907 roughly 90 per cent of the British output of cotton piece-goods had gone abroad, in the 'thirties less than 60 per cent of a far smaller output was exported ; and the value of export of cotton yarn and piece-goods from 1933-35 was less than one-third of what it had been in the first decade. The quantity of coal exported fell form 61·7 million tons in 1924 to 35·9 million tons in 1938. Secondly, Britain was lagging behind the U.S.A. and Germany in the sale of those classes of manufactures (motor vehicles, chemicals, etc.) for which there was a growing world demand. Thirdly *the chief 'invisible' exports, the rapid growth of which in the nineteenth century enabled Britain to pay for the excess of her visibile imports over visible exports, could not in this period exert a fully comparable influence.* Foreign investment was resumed after the First World War but even by the end of 1938 the value

[1] For detailed discussion, see Ashworth, *op. cit.*, pp. 342-43.

[2] Agricultural production in those countries was mainly in hands of small farmers who had to sell their crops irrespective of the state of market. Unlike the producers in manufacturing countries, farmers in agricultural countries could not easily reduce output in bad times ; the only alternative open to them was to cut prices : hence during the inter-war period, and especially between 1929 and 1939, Great Britain was able to exchange a smaller volume of manufactured goods for a much larger volume of agricultural products than was the case in 1913.

of British foreign investment was not more than about £3,700 million, which is rather less than in 1913. The earnings of shipping, the second largest item in the 'invisible' exports, were almost as difficult to maintain. The stagnation of international trade reduced the opportunities of profitable ocean carrying and, for a variety of reasons, British ship-owners could secure only a smaller proportion of the available carrying trade than before. A combination of national aspirations of other countries with war-time needs and opportunities led many other countries greatly to increase the size of their merchant fleets. So, although the merchant navy of the U.K. kept its size during the 'twenties, it formed a diminishing proportion of the world's supply of shipping. And the general increase in the world's supply of shipping caused intense competition which had the result of driving down many rates to unprofitable levels. The earnings of the U. K. shipping which reached £140 million in 1924 fell as low as £65 million in 1933. It slightly recovered since then and reached £100 million in 1938. The other 'invisible' exports had also declined. The business of short-term finance—from which London as an international financial centre derived considerable profit —had never recovered after the First World War. The business of raising long-term loans for foreigners fell even more sharply.

Growth of Imports

Since exports as a whole tended to decline during the inter-war period, it might have been expected that imports also would decline. But this proved not to be the case. The volume of imports grew quickly and in 1924 it surpassed the level attained in 1913, and in 1929 the volume of imports was almost 20 per cent greater than that in 1913. In the early 30's it remained rather lower but from 1936 onward it was even higher than in 1929. This happened in spite of the fact that at that period fewer of the imports were re-exported. Whereas just before the First World War re-exports were usually 14 or 15 per cent of total imports, the proportion gradually fell in the twenties and was below 10 per cent from 1929 onwards.

In many ways the growth of imports after the First World War was a resumption of tendencies that had been prominent in

the last quarter of the nineteenth century. Once again there was a steady increase in the proportion of manufactured goods in total imports, iron and steel, machinery and electrical goods providing a large part of the increase. Once again, too, there was a marked rise in the imports of the more expensive types of food-stuffs. Meat and dairy products formed 45·3 per cent of the expanded total of food imports by 1927-29 and 46·7 per cent in 1932-33. The position in most years was that 45 to 50 per cent of imports consisted of food-stuffs, around 30 per cent were raw materials and the rest were manufactures.

Terms of Trade : The main reason why the growth of imports was possible in a time of difficulty of exports was that the prices of most of the foodstuffs and raw materials, which made up the greater part of the imports, fell much more than the prices of British exports. An index of Britain's net barter terms of trade, taking the 1913 ratio as 100, averaged 130·1 from 1919 to 1923, 124·1 from 1924 to 1932 and 138·0 from 1933 to 1937.

But in spite of this favourable change in the terms of trade, by the 'thirties imports were outrunning exports to a dangerous extent. The balance of payment position became so much acute that it became an objective of commercial policy to switch purchases to some extent away from those areas with which the British balance of trade was heavily adverse.

Change in the Direction of Trade

We have already noted that because of the difficulties of the balance of payment in the 'thirties it became an objective of commercial policy to switch purchases away from those areas with which the British balance was heavily adverse. For instance, imports from the U.S.A. and Western Europe were sought to be reduced by buying goods increasingly from those areas, chiefly in the tropical parts of the British Empire, with which there had been an export surplus, and from those areas, particularly some of the white British dominions, such as Australia, which were heavily indebted to the U.K.

Exports also registered a significant change in direction. The growing competition in the textile market showed itself most markedly in the diminishing importance of the Indian and other

Asiatic markets. There was also a slight fall in the proportion of British exports that went to South America, where the general increase in the competitive power of the United States had to be reckoned with. These changes were offset by a relative increase in the share taken by the Australian markets. There was also an increase of the share of exports to African markets particularly tropical British colonies.

It will be clear from the above discussion that *the shift in the direction of exports was more political than geographical.* Between 1909 and 1913, 35·4 per cent of Britain's home-produced exports (i.e. excluding re-export) went to the British Empire, and between 1919 and 1926 the proportion had risen to 38·4 per cent. By 1935-39, the countries of the Empire were buying almost half of Britain's exports.

E. FOREIGN TRADE SINCE THE END OF THE SECOND WORLD WAR

Export Drive

During the war years, 1939 to 1945, Britain was forced to part with a part of her overseas investment, so that, apart from foreign loans, she could import little more than what she could pay for with her visible exports. Since 1945, therefore, foreign trade, especially to dollar countries, has been assisted by the Government in every possible way. The export trades have been given priorities in respect of raw materials, manufacturers have had exports credit guaranteed by the Government. The Government has also assisted in market research. All these measures have been attended with considerable success. In the decade which ended in 1957, United Kingdom's exports of goods and services valued at 1948 prices expanded by over 60 per cent compared with about 40 per cent for all imports and 28 per cent for G.N.P.[1]

But the tendency towards fall in traditional exports has persisted. Textile exports have continued to fall, coal exports have almost stopped. In fact, coal had to be imported to meet the needs of growing industries ; and cheap cotton goods from

[1] Dean & Cole, *ibid.*, p. 312.

India threatened to capture Britain's home market. However, a new set of industries—the motor and aircraft industries—made an impressive appearance in the export market. In the '50's these accounted for 12% of total exports. By 1955, motor car export were five times of what they had been in 1937. Britain now competed with Germany for the position of leading car exporter, with France and U.S.A. a long way behind. Similar advances were registered by aircraft manufacture. Military aircraft predominated in export in the '50's, but her export market for civil aircraft—particularly the Vickers Viscount and the Comet—also registered substantial gains.

Dollar Crisis

But the great success of her export drives did not solve her balance of payment problems. The most important cause of this disequilibrium was the inability of the Government to control and eliminate inflationary pressure. Another factor in the balance of payment problem was high government expenditure on the social services. According to some critics a too rapid development of the social services have deflected raw materials and man-power away from the export industries and raised their costs of production. This was equally true of huge expenditure on defence. Anothor important factor was that just after the war the terms of trade tended to move against England.[1]

When in 1948 and 1949 the problem of dollar gap in the balance of payment became very acute, Britain devalued sterling in terms of dollar. This assisted the export trade in the American market, and helped her to increase her gold reserves.

[1] The sad experience of the 1929-33 depression led most of the primary producing countries to adopt restriction schemes in the production of primary products and by 1945, agricultural producers for the world market were in a much stronger position than they were ever before. Primary producers were also strengthened by the abnormal shortage of raw materials and food-stuff—a shortage accentuated by the marked rise of the world population as a whole. The result was that instead of obtaining a given quantity of agricultural products by a decreasing volume of manufactured goods, as was the case in the 'thirties, England had had to part with more and more manufactured goods in order to obtain a given volume of imports.

But rearmament, beginning from 1950, brought about a further deterioration, and by 1951 another crisis was impending as Britain's gold reserves were dwindling rapidly. The Government resorted to 'Credit Squeeze' to encourage saving and check consumption. But it was plain that the 'credit squeeze' was not a full solution of the problem; prices continued to rise with consequent difficulties for exports.

In the meantime, a falling off in exports to the Commonwealth countries, and the rise of exports to European countries, influenced the Government in deciding in 1961 to apply for membership of the 'Common Market'.[1]

[1] See Chapter XXI.

CHAPTER XI

SOCIAL PROBLEMS—THE CLASSICAL ECONOMISTS AND THE SOCIALISTS

A. CLASSICAL ECONOMIC THINKING

THE INDUSTRIAL REVOLUTION introduced disturbing elements into the social organisation. It created a class of landless and propertyless proletarians, steeped in misery and degradation. It accentuated inequality; while a few became millionaires, many became pauper. This contrast was so obvious that a section of economic thinkers had to come forward to prove that there was nothing fundamentally wrong with Capitalism. And there is nothing surprising in the fact that most of them belonged to Great Britain, the first country in the industrial field.

Classical Economists

Adam Smith (1723-90), the founder of English political economy, visualised an unlimited possibility of expansion of production and wealth under a free-enterprise capitalist economy. He showed that production under a free enterprise system is not 'full of aimless bustle and confusion'. Behind this supposed confusion, there is a rational plan; as if 'an invisible hand' is co-ordinating all seemingly purposeless activities. If each individual is allowed to pursue his private self-interest, the social welfare will be maximised. From this analysis he deduces the doctrine of economic liberty (*laissez faire*)—that there should be minimum State-interference in the economic activities of a nation.

Robert Malthus (1766-1834), though not strictly speaking a champion of the new order, propounded a theory of population according to which the labourers are themselves to be blamed for their misery and wretchedness. The misery, vice, privation, famines, epidemics, etc. are not the result of economic exploitation;

it is the outcome of insatiable sex-hunger of mankind. The remedy for poverty and destitution is neither public charity nor state interference in the operation of natural laws; because any artificial improvement (say, by trade-union action, or charity or State-action) will be invariably followed by an increase in numbers which will lower the level again to the bare line of subsistence. According to Malthus, the only escape from this vicious cycle lies in moral restraint. Thus 'public conscience was quietened by the authority of science that social evils were inevitable, and non-remediable by the state.'[1]

David Ricardo (1772-1823) was not so optimistic as Adam Smith. He explained how with the progress of society rents tend to increase; how real-wages of labourers remain at the subsistence level and how the rate of profit continuously declines. Thus he destroyed the Smithian idea that there is a harmony of interests in the society so that all classes of the society can prosper simultaneously. On behalf of the industrialist class Ricardo launched a venomous attack on the landowners but he had nothing to offer in favour of the labourers. In accordance with his belief in *laissez faire*, he thought that the duty of the State was to stand aside and take no part in the clash of economic interests.

John Stuart Mill (1806-73), however, was conscious of the evils of the existing economic system. An ardent advocate of social reforms, he was in favour of co-operative production. To reduce excessive inequalities of wealth he proposed to place restrictions on the right of inheritance. He was also in favour of taxation of land to the degree of confiscation.

B. IDEOLOGICAL OPPOSITION

The working class, however, refused to accept the economic justification of their misery. As mild reform measures of that period could not resolve the economic dis-harmonies, the workers and their sympathisers gradually came to believe that well-being of the people could never be secured under Capitalism. The

[1] Briggs and Jordan, *op. cit.*, Part II, p. 207.

revolt assumed various forms: Trade Unionism, Radicalism, Socialism, etc[1].

Though there are different varieties of Socialism, almost all varieties have some common features. They all believe in the abolition of private ownership in the instruments of production. Their ownership and control are to be vested in the State or associations which will initiate and conduct production not with a view to profiting by sale but for the service of those whom the State or associations will represent. Nobody will be allowed to live on unearned income, and remuneration for work will be in proportion to the work done. Though economic equality will

[1] The doctrine of Socialism had its birth in France. The forerunners are Saint-Simon, Fourier, Proudhon and Louis Blank. Their ideas were not identical but all of them tried for a peaceful solution of social difficulties. The most important exponent of Socialism is Karl Marx (1818-83) a Prussian Jew, who spent the greater part of his life in exile in London. He has called the French Socialists 'Utopian Socialists' and claimed that his theory is scientific because it is based not on sentiment but on an impartial study of the laws of social developments. The Marxian theory of exploitation shows how the capitalist robs the labourer of the fruit of his toil. The Materialistic Conception of History has enabled him to show that society is moving irresistibly in the direction of Socialism. By combining these two pieces, he shows that the prolonged class-war between the proletariat and the bourgeoisie will lead up to a social and political revolution, which may or may not be accompanied by bloodshed. Thus, the Marxian Socialism becomes a theory round which proletariats rally in their secular battle with the capitalists.

Syndicalism, a direct offshoot of Marxism, regards the trade union as the instrument of social revolution. This theory was enunciated by a group of French intellectuals, notably George Sorel. They believed that the revolution would be ultimately accomplished by the weapon of a series of voilent general strikes throughout the country. The post-revolutionary structure of the society, which they want to create, is vague.

Bolshevism, chiefly derived from Marxism, proved its superiority over other versions of Marxism by successfully engineering a Socialist revolution in Russia in 1917. According to Lenin, its chief exponent, the chief concern of a Socialist is to accelerate Socialist revolution, if necessary. by violence. The State, which is essentially an instrument of coercion applied by the bourgeoisie to suppress the proletariet, will be retained even after the revolution. The same apparatus will now be applied by the proletariat to suppress the bourgeoisie. When the suppression will be complete, the State will wither away and the era of Communism will begin. All forms of wealth will be socialised and men will work not for private self-interest but for the society. A high degree of social consciousness will make it possible to adopt a new principle of distribution : from each according to his ability, to each according to his needs.

Some socialist thinkers did not like the element of possible violence in the Marxian Socialism. A revisionist movement started against the theory of revolution and in 1899 a theory of 'Evolutionary Socialism' was popularised in Germany. The Fabianism which became popular among the English middle-class intellectuals is also a reaction against the Marxian Socialism. It also believes in peaceful transition to Socialism.

not be guaranteed, equality of opportunity for all, irrespective of rank, will be assured.

Robert Owen

English Socialism was born out of the miseries following the Napoleonic Wars. The widespread unemployment and low wages produced a desperation among the workers, and riots became a daily feature of working-class areas. Attributing their misery to factory system, the workers began to destroy machinery. Robert Owen, himself a big capitalist employer, became convinced from his experience that evils of the factory system were not due to the machine but to the system of private ownership. He, therefore, tried to make the workers understand that the objective of the workers must not be the destruction of the new factories but the control of them by some means or other. Owen, at first, believed it possible to transform society by voluntary co-operation. To prove this, he tried many experiments. At New Lanark, in Scotland, he attempted to set up an ideal community where not profit but ideal of service would act as incentive for production. It failed. Then he tried some experiments to realise the idea in agriculture by the formation of communal villages. But again, little success attended these efforts. Some of the philanthropists who supported him lost their fortune, and he himself gradually turned towards more uncompromising forms of Socialism. He became the intellectual guide of the Grand National Consolidated Trades Union, established in 1835. He anticipated Syndicalist ideas and proposed that trade unions should take over the chief industries of the country and run them on behalf of the workers.

Owen's experiments failed, but he was successful in popularising the idea of co-operation in England. The Rochdale Pioneers were Owenite Socialists.

Christian Socialists

After the failure of the Chartist movement, a new school of social reformers appeared in England. Though they were deeply touched by the misery of the working class, they were opposed

to materialism which characterised socialist thinking of the period. As they tried to apply Christian religious principles to the solution of social problems, they were known as 'Christian Socialists'. The leaders of the movement were two clergymen, Denison Maurice, divinity professor at King's College, London and Charles Kingsley, novelist and poet. After the failure of the Chartist movement in 1848, the Christian Socialists issued a paper, *Politics for the People*, through which they tried to popularise producers' co-operative movement. But all their experiments proved in the end a complete failure.[1]

Economism

In the third quarter of the 19th century various types of worker's organisations, trade unions, co-operatives, etc. became stronger. Pure economism captured the stage wherefrom socialist revolutionary fervour was almost banished. 'Hitherto the people had ideals without organisation ; now they were creating organisation whose chief defect was a lack of ideals' (Ogg and Sharp).[2]

Karl Marx

The English working-class movement was again captured by a revolutionary spirit when Marx's influence was felt in the last quarter of the 19th century. The Social Democratic Party, established in 1880, could not satisfy its more revolutionary members. They accepted the Marxian principles and founded the Social Democratic Federation in 1884. But its revolutionary programme found no favour with the English masses who were essentially conservative ; and it was out-shadowed in importance by the Fabian Society, established in 1883 by Bernard Shaw and Sidney Webb.

Fabians

Fabianism is a reaction against Marxian Socialism. It was opposed to class war and revolution ; it believed that Socialism

[1] See Chapter XII.

[2] See Chapter XIII, Section on 'New Model Unionism:

could be achieved by peaceful means. The Fabians were called arm-chair Socialists because they sincerely believed that Socialism was a question of conviction. If the people can only be convinced of the virtues of Socialism, no power on earth can prevent its coming about. Through literary propaganda—novels, short stories, dramas, etc.—they exposed the evils of Capitalism and brought out the merits of Socialism. Fabianism exercised a real influence on the English thought for nearly half a century. The history of the Labour Party of Great Britian copiously illustrates how the development of evolutionary Socialist movement has been shaped by the Fabians.

It is interesting to note however, that in spite of the influence exercised by the Fabians, Marxian Socialism and revolutionary movements had and have their adherents in Great Britain. The Communist Party of Great Britain, organised on Marxian lines, is strongly entrenched in the Trade Union Movement. A mild form of Syndicalism also made its appearance among the Welsh miners. A group of Guild Socialists founded the National Guilds League in 1915. But the movement made little headway.

CHAPTER XII

CO-OPERATIVE MOVEMENT

THE CAPITALIST economy is characterised by rivalries and antagonisms: the antagonism in the interests of buyer and seller, of employer and employee, of debtor and creditor, of the rich and the poor. The co-operative movement seeks to minimize these conflicts of interests without disturbing the class structure of the present society. It differs from Socialism in that it does not believe in revolutionary action or state-intervention. The liberty of the individual need not be sacrificed: the free initiative of individuals, working through voluntary association, run on co-operative principles, will minimize antagonism and create a harmonious and united society. Naturally, the co-operative ideal appeals to all classes, specially the working class and the middle-class intelligentsia.

The co-operative movement may be studied conveniently under the following heads: (1) Consumers' co-operation; (2) Producers' co-operation; (3) Co-operative credit.

A. CONSUMERS' CO-OPERATION

Rochdale Pioneers

England is the birth-place of consumers' co-operation.[1] The first co-operative society was founded in 1769, but the experiment did not succeed. The subsequent attempts were also unsuccessful. The 'Rochdale Equitable Pioneers' were the first to make consumers' co-operation a practical success, and they were rightly regarded as the founders of the movement. Some extremely poor, uneducated flannel weavers of Rochdale were advised by a dis-

[1] The philosophy of consumers' co-operation was fully developed and brilliantly enunciated by a small group of French intellectuals of the School of Nimes. The main idea behind consumers' co-operation is simple: if the same body of people are buyers and sellers, all unnecessary middlemen and social parasites will be got rid of, and the antagonism in the interests of buyers and sellers will be completely eliminated.

ciple of Robert Owen to open a co-operative store to ameliorate their condition. Twenty-eight weavers saved one pound each and in December 1844 started a "miserable groceries shop" in a room in the house of one of the members in Toad Lane, Rochdale. Goods were sold to the members at ordinary retail prices and the profit was re-invested. The moderate success of the society attracted new members. Within one year, the membership increased from 28 to 75 and by the end of the tenth year it became 1,400. Within the same period, capital increased from £28 to £11,000, and the sales from £700 to £45,000. The society added new lines to its business and by 1875 the membership exceeded eight thousands. The most important reason for this unexpected success was the fact that the founders, though Owenite idealists, were practical men of sound business abilities. They adopted some very sensible principles which subsequently came to be known as Rochdale Principles. These are :

(1) To allow no credit (so that the question of bad debt may not arise).
(2) To sell goods at market price.
(3) Never to sacrifice quality to cheapness—to allow full weight and sell unadulterated goods. (These practices were rare in most of the shops in the working-class areas of that period).
(4) To pay 5% interest on the capital subscribed by the members.
(5) To set aside a part of the profits for educational and philanthropic purposes.
(6) The balance of profits to be distributed as 'dividend' among the members in proportion to the amount of the purchases made by them. This dividend system induced the members to purchase always from their own society.
(7) To encourage poor people who could not afford to buy a share to join the society. Subsequently they were permitted to become members by stipulating that dividends would accumulate until sufficient money necessary for purchase of the share was available.
(8) The management was in the hands of the members and all members had equal voting power. This ensured that the control of the society would not pass into the hands of a few prosperous members.

Legal Concessions

Inspired by the successes of the Rochdale pioneers, societies on the new model sprang up in all the industrial districts of the north. But the legal disabilities of the societies hindered the progress of the movement. In 1852 and 1862 statutes were passed which gave co-operative association legal recognition. They acquired the privilege of limited liability and the right to hold one another's share. They were allowed to deal with non-members and to sue their officers for misuse of funds. These legal concessions produced encouraging results and by 1863 the number of Rochdale type of societies reached 454.

Wholesale Societies

The right to hold one another's share paved the way for the formation of wholesale distributing societies. In 1864, the Co-operative Wholesale Society (C.W.S.) was established at Manchester. It was a federation of English consumers' societies ; it stood in the same relationship to the retail societies as these stood to their members. The capital of the Wholesale Society was provided by the retail societies, which received interests on their shares and dividends on the purchases. It was originally intended to make purchases on a larger scale and more advantageous terms than would have been possible by the retail societies acting separately. But, before long, it extended its activities to the field of production and in 1872 it opened a biscuit factory. Gradually it began to manufacture flour, butter, tobacco, hats, boots and shoes, clothing, woollen goods and many other things. It established a banking business for the benefit of co-operative societies, and organised life insurance on co-operative principles (1886). Similarly, the Scottish Wholesale Society, established in 1868 at Glasgow, set up a network of factories in Scotland. In 1896 the English C. W. S. became the owner of 40,000 acres of agricultural land in England. Both the Wholesale Societies owned extensive colonial domains : C.W.S. 80,000 acres of tea-plantations in the East and 10,000 acres of palm-forest in West Africa ; S.W.S. owned extensive corn-lands

in Canada. Thus it will appear that co-operation penetrated into almost all departments of economic activity.

Measures for Popularising Co-operation

In the same period, the consumers' co-operative movement got powerful impetus from another source. The Co-operative Union was founded in 1889 to carry on co-operative propaganda and educational work. It published books and pamphlets, organised popular classes in subjects useful to co-operative officials and workers, and ultimately established a co-operative college.

Twentieth Century Development

The consumers' co-operative movement continued to achieve remarkable progress even in the 20th century. The number of the societies (retail) registered a fall but membership and sales increased continuously in the period between 1901 and 1954.[1]

While the process of amalgamation reduced the number of societies, the membership increased from year to year with consequent increase in sales. The tendency of consumers' co-operation to venture into production also continued unabated ; the Wholesale Societies began to absorb producers' co-operatives. In a sense, it created a situation which was definitely against the principles of co-operation. The employees of the absorbed producers' co-operatives lost the independence ; and the leaders of consumers' co-operative movement, specially J. T. Mitchell, Chairman of the English C.W.S., consistently refused to admit the employees of producers' co-operatives either to a share in the profits or to a partnership in the management of the business.

The spirit of consumers' co-operation penetrated into almost all departments of economic activity. C.W.S. developed its own

[1] This can be shown as follows :

Year	*Number of societies (roughly)*	*Number of members (roughly)*	*Sales (roughly)*
1901	1,450	2 million	£ 53 million
1938	1,190	8·5 "	£ 268 "
1945	1,074	9·5 "	£ 352 "
1954	975	11·5 "	£ 800 "

banking and insurance institutions. When National Health Insurance Act was passed in 1911, C.W.S. started a branch relating to health insurance. It established depots all over the world and built a small fleet of merchant vessels.

But all is not well with consumers' co-operative movement. The fierce competition between co-operative societies and departmental stores has brought out certain defects of the co-operative (retail) movement. It is clear that in the post-Second World War period there had been remarkable changes in the expenditure pattern of the consumers but the co-operatives failed to break into certain trades which were absorbing a larger proportion of consumers' income.

B. PRODUCERS' CO-OPERATION

Philosophy of Producers' Co-operation

The most serious economic problems of the industrial age have arisen from the antagonism of employers and wage-earners. The idea behind producers' co-operation is that if in a workshop the workers supplied labour as well as capital, the workmen would become their own master ; they would obtain relief from economic exploitation and enjoy independence, while the society as a whole would obtain industrial peace. English writers, including J. S. Mill, recommended this as a remedy for labour unrest. But the original home of producers' co-operation was France.

Experiments

In England, Robert Owen tried (1840) to establish a co-operative industrial village but it was a failure. The next serious attempt was made by the Christian Socialists in the '50's. Small co-operative workshops of tailors, shoe-makers and printers were set up ; since provision of capital to the necessary amount was beyond the capacity of the workers, capital was supplied by wealthy sympathisers. But in the absence of social consciousness, only monetary risk could make workers care for the prosperity of their workshop. Since neither was present, the experiment was doomed to failure. Another important reason for the failure

of co-operative production was workers' lack of capacity for industrial management. Labour indiscipline reached such proportions that men of outstanding managerial capacity became unwilling to assume managerial responsibility in a co-operative enterprise. Within a few years all workshops had to be closed down ; promoters of the movement and sympathizers (specially Vansittart Neale) lost their fortune in the experiment.

The movement took nearly thirty years to revive again and in 1884 the Labour Co-partnership Association was formed for encouraging the establishment of co-operative workshops. But apart from the inherent difficulties of producers' co-operation we have already mentioned, some other accidental factors hindered their growth. Co-operative Production Societies were not helped by other branches of the co-operative movement, or by trade unions or the Labour Party. Instead of providing the producers' co-operatives with a market for their goods, the English C.W S. tried its best to convert the producers' co-operatives into its own manufacturing establishments. As a result, producers' co-operation made little headway in England.

C. CO-OPERATIVE CREDIT

Co-operative credit meets the needs of the poor agriculturist who cannot get assistance from ordinary credit institutions, firstly because he wants medium-term and tong-term capital, and secondly because he has no tangible security to offer. The movement first started in Germany under the leadership of Frederick Raiffeisen.

In England the co-operative credit movement made little headway, mainly because of the fact that in the 19th century England, farmers were relatively prosperous.[1] The government policy of price-support added to the prosperity of the agriculturists. According to a recent estimate, there are nearly 500 agricultural co-operative societies in Great Britain, engaged mainly in marketing agricultural products.

In England, the co-operative credit movement found a new form in Co-operative Building Societies. They bring into har-

[1] Because of Enclosure movements, few people were engaged in agriculture and the size of the average farm was quite large.

mony the opposing interests of borrower and lender. A society contains a number of members who make periodical payments to it. When a member wants to buy a house he borrows the fund from the society. He continues his periodical payment which reduces his indebtedness; he also pays interest on the outstanding balance. Those who do not borrow receive interest on the amounts standing to their credit. In this way many members, who could not have owned houses in any other way, become owners of houses.

D. CONCLUSION

In the 20th century the co-operative movement lost its non-political character, when the Swansea Congress of co-operative (1917) decided to set up a number of co-operative candidates for the Parliamentary election. One was elected in 1918 and six in 1923. Since there was a close connection between co-operation and trade unionism, negotiations were opened for the establishment of a joint committee of the Co-operative Union, the Trade Union Congress, and the Labour Party. The attempt failed, but a working agreement was reached between the Co-operative Union and the Labour Party in 1927. The co-operatives contested a limited number of seats; in other seats they supported the Labour Party. They usually sit and vote with the Labour Party. In short, the co-operative union has not attained the stature of a separate political party.

CHAPTER XIII

TRADE-UNION MOVEMENT

TRADE UNION movement in its modern form is a 'child of industrialism', a product of the Industrial Revolution. The factory system made the union possible and the conditions of factory made it necessary.[1] The Middle Ages and earlier modern times were by no means devoid of labour problems and labour disturbances. But the labour disturbances which, prior to the eighteenth century, made themselves felt were rural rather than urban, agricultural rather than industrial. It was the working people of the country districts whose unrest gave rise to the Jacquerie of 1358 in France, the Peasant Revolt of 1381 in England, and the Peasant's War of 1524 in Germany. Until handicraft manufacture was displaced by the factory system, employers and employees in manufacturing industry worked side by side and in a closeness of touch which promoted mutual understanding and goodwill. With the coming of the factory, however, this wholesome relationship was severed. As the capitalist operator gathered under his employ larger and larger number of men, it became difficult and finally quite impossible, to know his employees personally and to understand their ideas and desires. Personal ties were entirely dissipated ; bargaining concerning wages and hours became collective, impersonal and cold-blooded. Thus the tremendous economic progress that resulted from the triumph of the factory system was also accompanied by greater inequality, intense economic stress and fierce class conflict. Furthermore, at the same time that the mass of the working people were being shut off from immediate contact with their employers, they were being brought into closer relations than formerly among themselves, in the factory and in the city. It stimulated, in the ranks of labour, the growth of class consciousness and rendered easier the organisation of labour for its own protection.

[1] F. A. Ogg and W. R. Sharp, *Economic Development of Modern Europe*, Revised Edition, 1941, pp. 400-01.

Thus trade union was formed. Gradually, the labour movement became rampant.

Sometimes, the labour movement became convinced that unless the machinery of the state could be captured, it would never be possible to wring full justice from the ruling class. This conviction forced it to accept a political programme, and the two aspects of the labour movement—economic and political—proceeded concurrently.

It is in England, the first country to be industrialised, that the trade union movement made its earliest appearance. In the early 18th century, some of the English industries, like cloth and felt-making, had developed considerably thus creating an army of angry workers. But as there was no permanent association of workers, their anger generally ended in sporadic and mostly unsuccessful strikes. When the Industrial Revolution began in the second half of the 18th century, densely populated industrial centres began to grow up, and permanent associations of workers were formed in many industries. The legislature, dominated by feudal lords, became hostile to this movement, and special statutes were passed dissolving strong unions.

A. NINETEENTH CENTURY DEVELOPMENTS

Combination Laws

The climax came towards the end of the 18th century. The French Revolution inspired the English working class to fight for 'liberty, equality and fraternity'. Tom Paine, in his *Rights of Man*, raised a cry for reform and in 1792 Thomas Hardy founded the first working-class political association in England. The rapid growth of similar political societies among the working people of Britain alarmed the government and stern repression began. The Government wanted money to fight the French, and this could come only if industry prospered ; in this urgency of the government the manufacturers saw their chances of making bargain. No distinction was made between political associations and trade unions ; by the Corresponding Societies Act of 1799, all political associations of the working men were declared illegal ; in 1800, Combination Acts were passed to suppress all forms of trade unionism.

Suppression of Unions

Trade unions came to be regarded as criminal associations and the members of unions became exposed to all severe penalties imposed on conspiracy. During the first quarter of the 19th century, the history of labour movement had thus been 'simply a record of persecution by the employers, of reprisals by the workmen and of ruthless sentences in the courts'.[1] In 1810, several printers of *The Times* newspaper were sentenced to two years' imprisonment simply because they quitted their work when the demand for an increase in wages was not met. Seven workers of Sheffield were imprisoned for belonging to a society called the "Misfortune Club" which helped its members in distress. In 1818, a group of Bolton weavers arranged a meeting to demand an advance of wages. The workers were advised to do so by their masters. But when the meeting took place, the leaders were arrested on a charge of conspiracy and severely punished.

Secret Organisations

The Combination Acts hurled the English working classes into the lowest depths of degradation ; but trade unionism could not be crushed. The introduction of labour-displacing machinery was virulently resisted by a secret labour organisation whose members were known as Luddites. In short, the repressive measures drove the labour mevement undergroun.

Repeal of the Combination Laws

When the emergency created by the Napoleonic wars came to an end in 1815, the agitation among the working classes for the repeal of the Combination Laws began to gather momentum. But the main part in the agitation was played not by the working-class leaders but by a man who did not believe in organised trade unionism. He was Francis Place (1771-1854), a master tailor of Charing Cross. Though no believer in the efficacy of trade-union action, as a sympathiser of the working people he considered the law to be unduly harsh. For many years he tried to educate

[1] Briggs and Jordan, *op. cit.*, Vol. I, 10th Edition, p. 422.

public opinion on the matter ; he made two important converts, Mcculloch (an economist) and Joseph Hume (the Radical leader). He adopted somewhat unscrupulous methods of political wire-pulling and flattery, and managed, with the help of Hume, to get a bill passed declaring trade unions lawful bodies and exempting them from the Law of Conspiracy (1824). F. Place believed that trade unionism would not solve workers' problems ; he hoped that by legalising trade unions he would teach the workers their uselessness. But the new freedom had results other than those expected by Place. There was a sudden epidemic of strikes and industrial disputes, often accompanied by outrages. When the employers and careless legislators realised the trick played upon them by Place and Hume, they became furious and commenced an agitation for the re-enactment of the Combination Laws. By an amendment of 1825, trade unions were deprived of the exemption from the Law of Conspiracy.' The withdrawal of this privilege damaged the prospect of trade union activities for nearly 50 years. Since a mere announcement of an intention to strike might be treated as evidence of a conspiracy, there was little scope for normal trade-union activity.

National Unions, Irrespective of Trade

In spite of the legal disabilities, the end of the last decade saw a new theory of unionism. Employers of all trades had combined but workers were divided. Hence the imaginative trade unionists tried to build up one vast industrial union which should contain all the workers of all trades of the country. The Grand General Union was formed in 1829, but it soon disappeared. In 1830, the National Association for the Protection of Labour was formed. It published a weekly newspaper, the *Voice of the People*, which claimed a circulation of 30,000. But this union also fell away. The Grand National Consolidated Trades Union was formed in 1834. In a few weeks the membership reached half a milion. Industrial as well as agricultural workers were enrolled. The intellectual guide of the Grand National Consolidated Trades Union was Robert Owen. His aim was syndicalistic[1]; he proposed

[1] As a creed, Syndicalism developed in France in the early 20th century. For details, *see* chapter XI. For Owen's part in it, *see* chapter XII.

that trade unions should overthrow the existing organisation of society by a series of violent general strikes, and then reconstruct the society in the interests of the workers. But such a programme could not be executed by a loose organisation like the Grand National. It was composed of heterogeneous elements which could not be induced to forget sectional interests. Each section wished to see its particular grievances remedied at once. The result was that 'the Grand National frittered away its resources in a series of local strikes...Before the close of the year it came to an end, silently and ingloriously....[1] The employers seized the opportunity to destroy the movement; large-scale prosecutions of unions began on various legal pretexts. Some agricultural labourers of Dorsetshire (known subsequently as the 'Dorsetshire Martyrs') received the savage sentence of transportation for seven years just for administering oath to new members.

Chartism

The inglorious end of the Grand National disillusioned many workers and trade unionists; they lost faith in the efficacy of trade-union action. Most of the unions were dissolved; others declined in strength. Workers turned again to political activity and began to support the Chartist Movement (1838-48). The Chartists believed that the capture of political power by the workers was the first step towards the removal of the intense misery suffered by the English working population after the Industrial Revolution. Their Charter had *six* demands: (*a*) manhood suffrage; (*b*) vote by ballot; (*c*) annual Parliaments; (*d*) abolition of property qualification for M.P.'s; (*e*) payment to members of Parliament; (*f*) equal electoral districts. The first leaders of Chartism were working-class radicals and trade unionists (though unions as such held aloof). But soon the leadership passed into the hands of adventurers like Feargus O'Connor. Though sometimes it showed great promise, the movement gradually died out because the English working people of a century ago had neither the education nor the political experience to conduct a successful political agitation.

[1] Birne, *op. cit.*, p. 134.

New Model Unionism and the 'Junta'

The failure of Chartism was followed by a revival of trade-union activities. During the '40's and '50's a new type of union and a new type of trade-union leader made their appearance. It gave up revolutionary aims as impracticable ; in some unions strike as a weapon fell into disfavour and efforts were made to improve the economic condition of workers in other ways. Each problem was treated singly : where the law was favourable, full use was made of it ; where adverse, attempts were made to alter it. Each trade studied its own interests ; the idea of organising all the workers of the country (of all the trades) was given up in favour of national unions of workers in particular trades. The Amalgamated Society of Engineers (A.S.E.) was the earliest example of the 'new unionism'. A number of unions in the engineering industry united in 1851 to form the A.S.E. ; it looked at the problems not from the point of view of labour as a whole but from the point of view of engineering workers ; not all engineering workers but only skilled workers were its members ; it levied high subscriptions and accumulated huge funds ; the fund was utilised not only for supporting trade disputes but also for the provision of friendly society benefits (i.e. for paying sick and unemployment allowances and old age pensions). The new unionism had certain advantages as well as disadvantages. The main disadvantage was that the labour movement was largely robbed of its revolutionary and socialistic contents. The main advantages were as follows : first, the problem of inducing heterogeneous elements to concentrate on a common policy (i.e. the characteristic problem of the Grand National) was completely eliminated. Secondly, larger section of workers could be attracted to unions because of its friendly society activities. Thirdly, the new organisation had remarkable financial strength ; it had, therefore, more power to defend the economic interests of the workers of a particular trade.

Changes in aim, in method and in organisation were followed by a change in the leadership. The leadership passed into the hands of 'moderate men, with cautious, limited views and a talent for business administration'. In the place of political enthusiasts the unions preferred a paid secretary who had an

intimate knowledge of the problems of the trade. Often the principle was extended to the whole of the executive. Again, for the first time in the history of the trade-union movement, there arose a group of actual workmen with necessary qualities of a leadership. Allen, Applegarth, Guile, Coulson, and Odger were a group of five, forming the "Junta". Because of their understanding of the middle-class decorum and convention, they became very effective in Parliament. They discouraged strikes and believed in friendly negotiation and legal enactments.[1]

Legal Battles

When the trade-union movement was slowly consolidating its position in the '60's, the employing classes renewed their attempts to suppress it. In 1866 when a group of Sheffield workers used violent means to coerce non-unionists, the press owned by the employers launched a virulent campaign against the trade unions. The unionists pressed for an enquiry so that they could clear themselves of the charges of terrorism. But no enquiry was made. In the same year a legal decision created new difficulties for the unions. The Act of 1825 did not recognise trade unions as legal bodies ; they could not prosecute a dishonest official for the misuse of funds and this made their fund extremely insecure. Most of the trade unions, therefore, registered themselves as friendly societies in the hope of securing protection for their funds. The courts decided in a case in 1867 that the practice of registering trade unions as friendly societies was illegal.

A Royal Commission was set up in 1867 to examine these questions. The employers expressed the hope that the Combination Laws would be restored and trade unionism destroyed. But the report of the Commission was on the whole favourable to the unions. The Commission acknowledged that the majority of the trade unions was peaceful and law-abiding. So instead of restoring the Combination Laws, it recommended further relaxation of the same. It also recommended the registration of trade unions, protection for their funds and separation of funds intended

[1] Trade Union Movement of this period was almost divorced from socialistic fervour. "Hitherto the people had ideals without organisation ; now they were creating organisation whose chief defect was a lack of ideals."

for friendly benefits from those designed for trade purposes. The Minority report was far more sympathetic to the trade-union movement. It argued that no trade union could function properly if it was held responsible for every action committed by its members. So it was in favour of giving them the right to sue in law courts and of exempting them from liability themselves to be sued. The government accepted this proposal of the Minority report.

By an Act of 1869, protection was afforded to the funds of the unions. By the Trade Union Act of 1871, the government recognised the legal status of the unions. But, at the same time, strikes were made nearly impossible by passing a Criminal Law Amendment Act, which imposed heavy penalties upon men who were found guilty of picketing and intimidation. The trade-union leaders refused to accept this and the 'Junta' summoned a Trade Union Congress. There was a strong agitation for a change in the Law and when Gladstone's Liberal Government refused to modify it, the trade union votes went against it in the general election of 1874. When the Conservative Party came to power in 1875, the law was finally reformed.

The legislation of 1869-75 was a great victory for trade union movement in England.

New Trends

Agricultural Labourers : The Acts of '69-75 were followed by a wave of unionism among agricultural labourers. For 40 years, after the savage sentence of Dorsetshire peasants, there had been little unionism among the agricultural labourers ; now Joseph Arch founded the Agricultural Labourers' Union which soon had a membership of 100,000.

Industrial Workers : The legislation was followed by an era of successful strikes in every trade. Yorkshire miners obtained important concessions ; Lancashire cotton operatives succeeded in reducing the legal working hours for women ; the masons in some towns won the nine-hours day ; the Sunderland engineers succeeded in reducing working hours after a five months' strike.

Change in Leadership : The last quarter of the century witnessed a serious depression which had a prejudicial effect on

the fortunes of the movement. There was much unemployment; wages fell and the membership and the funds of the unions declined. Gradually the influence of the 'Junta' and of the moderate section began to weaken, and the trade-union movement began to develop a fighting outlook. This change became clear both in political labour movement and in trade-union movement.

Formation of the Labour Party: Between 1874 and 1886, grounds were prepared for a definitely working-class political party. In 1874 two working-class candidates were returned to Parliament but they were elected mainly by liberal votes and they differed little from ordinary members of the Liberal Party. By 1886, there were 11 such members in Parliament, but the group showed little independence. The impulse towards a genuinely working-class party found its expression when in 1888, Keir Hardie, a young miners' leader from Scotland contested in a by-election against both the Liberal and the Conservative candidates. In 1893, he founded the Independent Labour Party, a socialist and working-class organisation, opposed to any working agreement with the Liberals. Gradually, the Trade Union Congress became convinced of the need for an independent working-class party and as a result the Labour Party came into existence.

The New Unionism: In the trade-union field, this new tendency found expression in rejecting the cautious trade-union policies, popularised by the 'Junta'. The New Unionists pointed out that the older unions, by restricting their membership to highly-paid skilled workers, had become aristocratic, aiming at benefiting a limited and defined number of men. The new leaders adopted the Marxian Socialistic ideas; the pathetic condition of unskilled labourers and sweated women labourers attracted their attention. The foundation of Hyndman's Social Democratic Federation prepared the way for the transition from the old to the new unionism. The unskilled labourer was brought within the scope of trade-union organisation. The new unions became purely fighting bodies, without friendly society benefits and low subscription rates. In the event of a strike the unskilled worker was at a disadvantage because he could be easily replaced. Nevertheless, the movement made progress at a feverish rate, and unions of dockers, gas

workers, railway workers and other unskilled men were formed. A sensation was created when the London match-girls went on a strike in 1888. The strike was organised by Mrs. Annie Beasant, one of the founders of the Home Rule League for India. The girls had neither organisation nor funds. Yet public opinion was so stirred that the employers had to give in. In 1889 the Dock workers of the London Dock embarked on a strike for a minimum wage per hour. In this case also public support was so widespread and so international in character that the poor workers won a great victory. These developments marked a new phase in industrial conflicts; now each side tried to enlist the sympathy of the people.

The new unionism led to the formation of many general labourers' union. These Unions tended to be cosmopolitan. The first International Congress of Trade Unions was held in 1888 in London.

B. TWENTIETH CENTURY DEVELOPMENTS

The Taff Vale Decision

In the early years of the 20th century the movement faced serious legal difficulties. The events which led up to the difficulties were as follows: In 1900, the railway men employed by the Taff Vale Company in South Wales came out on strike without the sanction of the union. The company tried to maintain the services by means of 'black leg' labour. The union therefore intervened and sent its general secretary to persuade the 'black legs' to withdraw their services. At this stage the union also began to grant strike pay to the striking workers. The Taff Vale Railway Company brought an action against the union—the Amalgamated Society of Railway Servants—for damages committed during the strike. In terms of the Act of 1871, the unions could not be held responsible for any action committed by its members. But the judges held otherwise, and the union was ordered to pay for the damages to the company. The leaders of the trade-union movement realised that this decision would seriously handicap the labour movement in future. In course of the agitation a distinct

Labour Party was born and the liberals were returned to power in the General Election of 1906. In the same year the *Trade Disputes Act* was passed which declared in unmistakable language that trade unions would not be liable for damages due to wrongful acts of their members.

Osborne Judgment

But the legal battle continued and in 1909 Mr. W. Osborne, a member of a railway union, filed a case to prevent his union from using its funds for political purposes. The judgment went in favour of Mr. Osborne; and it destroyed all aspirations of labourers in the political field. "The very existence of the Labour Party was at stake, and it was felt that a state of law which permitted wealthy men to subscribe to the funds of the Conservative and Liberal Parties but which denied to working men the right to contribute through their organisations to the funds of the Labour Party was intolerable."[1] The controversy continued for years. Finally, the Trade Union (Amendment) Act of 1913 permitted the unions to engage in political activity and to raise a separate fund for that purpose. Contribution to the political fund was to be optional.

General Strike

After the First World War, the total membership of the trade unions reached 8 million The high rate of unemployment, the rising prices and the policy of low wages inevitably produced discordant relations between unions and employers. The unrest found expression in a series of industrial disputes and in political activities. In 1922 the Labour Party became the Official Opposition in the House of Commons. These various tendencies came to a head in 1926, when the Trades Union Congress declared a sympathetic general strike in support of the striking coal-miners.[2] On May 4, 1926, a transport, steel, printing and building workers came out in support of the miners. At last the hundred years old dream of a general strike in defence of a

[1] Southgate, *op. cit.*, 256.

[2] For details *see* chapter on Coal Industry.

section of workers' interest had been achieved. But the government pronounced the strike to be illegal and skilfully organised propaganda against it. The leaders of the Trades Union Congress got panicky and called off the general strike, just after nine days of its commencement, in the belief that it had obtained satisfactory assurances from the Government. Trade unionists throughout the country were against the decision to end the general strike, but accepted the decision by submitting to discipline. The miners alone fought on, refusing to submit to the humiliating terms. But hunger aided the employers, and gradually the miners were forced back to work. The strike itself was a complete failure, but it revealed in an amazing fashion the working-class discipline and solidarity. "Despite its incompetent handling and humiliating conclusion, the general strike of 1926 may well appear to future historians as a decisive epoch in British working-class history."[1]

Trade Union Act of 1927

The result of the general strike was the passing of the Trade Disputes Act of 1926 and the Trade Union Act of 1927. Under these Acts the right to a sympathetic strike was limited, and any strike became illegal if it was designed either to coerce the government by inflicting hardship on the community, or had any object other than the settlement of the trade dispute within the industry in which the workers were engaged. The Act was clearly a partisan measure passed by the party in power (i.e. Conservatives) against its political opponents (Labour party). In spite of the bitterness aroused by the Trade Union Act of 1927, no serious agitation to amend it took place in the following years. The failure of the General Strike left the unions dispirited. Another reason for this inactivity is to be found in the trade depression of 1929-32. Though the unemployment problem took a turn for the better in 1934, there were too many unemployed down to the outbreak of the Second World War for the trade unions to risk a general offensive to recover their lost ground. From 1939 to 1945, industry and labour were strictly controlled

[1] Birnie, *op. cit.*, p. 189.

by the Government so that trade union problems were allowed to lie dormant. After the war when the Labour Government took office in 1945, it repealed the hated 1927 Act.

Recent Developments

After the Second World War, the Labour Party came to power. In the trade union field, there was a significant increase in union membership. The process of amalgamation of unions continued. As a result, in 1956, there were 17 big unions each having a membership of more than a lakh. Another significant feature of the period was the spread of the trade-union movement among non-manual workers and among agriculturists. Still another interesting development of the period has reference to the internal structure of the unions. Between 1945 and 1951, despite the fact that there was a Labour Government, there were a large number of unofficial strikes, especially among the miners and dockers. The authorities attribute this to communists but actually the explanation lies in the structure of the trade unions. The modern tendency is for a trade union to grow by a process of federation and amalgamation. But the larger the union, the greater the gulf between the rank and file and the executive. The central executive, absorbed in general policy, has neither time nor inclination for going into local problems. This causes a feeling of frustration in the general body of the members which finds expression in acts which really amount to a rebellion against the central executive.

The Labour Party has derived its political strength from many sources; but by far the most powerful source has been the organised labour movement. Thus the trade-union movement has come to play a vitally important part not only in the economic life but also in the political life of Great Britain.

CHAPTER XIV

THE FACTORY LAWS

THE INDUSTRIAL REVOLUTION led to the growth of the factory system. The new energetic race of factory-owners were extremely selfish and individualistic. In their money-making race, they considered a factory only from the point of view of maximum money-profit. The factory building was constructed as cheaply as possible; no thought was given to the health, convenience and safety of workers. Since the labour of women and children was cheaper than that of men, the factory-owners employed the former in large numbers. The owners of factories visited workhouses and brought batches of pauper children as 'apprentices'. They were employed for excessively long hours (e.g. nearly 16 hours a day) in unhealthy and dangerous surroundings. The situation stirred public conscience but the economists preached the *laissez-faire* principle that it would be improper for the State to interfere in the 'free' contract between factory-owners and workers. However, this absurd view gradually lost ground and it came to be recognised that the State had a duty to control some of the unfortunate social consequences of the Industrial Revolution. The factory legislation started in England, the home of industrialism.

The Factory Act of 1802

The first English Factory Act, passed in 1802, was introduced by Sir Robert Peel, the Elder, and its object was to regulate the labour of pauper children apprenticed to factory owners. At this time because of a strong prejudice against factory employment, it was very difficult to procure labour for the mills built in the deserted hilly districts of the North. The factories of the North approached the parish authorities of the South for the supply of child labour and the parish authorities readily got rid of pauper children by apprenticing them to factory owners. This

was perhaps 'the nearest apprach to a slave trade', and the result was disastrous.[1] A child was kept at work for sixteen hours a day and was not allowed rest even on Sundays. "He lived the life of a machine when working and at other times that of a beast."[2] Worst of all, the physical, mental and moral deterioration were perpetuated through generations, causing evils yet more serious.

The Act of 1802, restricted the working-day of child labour to 12 hours, forbade night work and made some provisions for their education. Rules were also made on such matters as their clothing and their housing accommodation.

As no adequate steps were taken to put the law into operation, the Act became futile for all practical purposes. Instead of accepting pauper apprentices, factory-owners began to employ wage-earning 'free' children. The wages of adult workers were so low that they were compelled to send their children for employment even when the latter were subjected to excessive hours of brutal treatment. Thus, at a stroke, the employer freed himself from legal obligations.

The Act of 1819 : Robert Owen

Robert Owen carried on an agitation for more effective regulation of child labour. The efforts of Peel, the Elder, and Robert Owen led to the passing of the Second Factory Act in 1819. This Act applied to all children employed in cotton textile factories, whether as apprentices or wage-earners. It made the employment of a child under nine years of age illegal, and limited the hours of work for children under sixteen to 12 per day. The Act was narrower in range (since the woollen mills which were included in the Act of 1802 were exempted in the Act of 1819) and like the former Act it was easily evaded. The duty of enforcement was entrusted to the Justices of the Peace, who were either mill-owners or friends of mill-owners and had, therefore, little interest in enforcing the law.

The Act of 1833

In the third decade, the agitation for factory reform entered upon a new phase. In the place of individual philanthropists

[1] Birnie, *op. cit.*, p. 187.

[2] Briggs and Jordan, *op. cit.*, Vol. II, p. 850.

like Peel and Owen, a great popular movement began to grow up in favour of factory legislation. Legislation of trade unionism made the voice of workers stronger, who demanded a shorter working day for all workers. A group of Tory philanthropists, like Richard Oastler, Michael Sadler, Lord Ashley, came forward to help the movement.[1] Richard Oastler struck the first blow by publishing a series of fiery letters in which he demonstrated that the lot of Yorkshire workers ('Yorkshire Slaves') was not more enviable than that of the Negro Slaves in America. Michael Sadler, who was a member of Parliament, utilised the sensation created by those letters to demand an inquiry into the conditions prevailing in factories. Parliament was forced to appoint a committee with Sadler as its Chairman. The report of the committee was sensational and the government tried to avoid the issue by referring the question again to a Royal Commission. But the finding of the Commission also was disquieting and Lord Ashley took this opportunity to introduce a general Ten Hours' Bill.[2] The government introduced an Amendment attacking this 'general' principle ; and Parliament passed the Factory Act of 1933. The Act applied to all textile factories. It continued the prohibition of employment of children under nine ; it limited the working day of children under nine ; it limited the working day of children under thirteen to 9 hours and that of young men under eighteen to 12 hours. Children between nine and thirteen were to attend school for not less than 2 hours per day and young men under eighteen were not to work at night. The Act has been hailed as the first effective Factory Act because it remedied the chief omission in the earlier Factory Acts by making proper provision for the enforcement of the law. Four factory inspectors were appointed and they were empowered to inflict fines on law-breaking factory owners. Compared with the Justice of the Peace, (on whom the duty of enforcement was

[1] The Tories (mainly landed aristocracy) looked on the new industrial system with misgiving. The manufacturers were becoming suprem · even in Parliament and the Tories naturally resented their growing power based on exploitation of industrial workers. The manufacturers were afraid that their profits would decline. They, therefore, argued that the reduction of working hours would raise the cost and England would lose foreign markets. To this the Tories rightly replied that the reduction in hours would be counterbalanced by the greater efficiency of labour.

[2] Birnie, *op. cit.*, p. 188.

entrusted by the Act of 1819), the inspector was a stranger in the locality and, therefore, could devote his whole time to his work and act without any undue favour to the manufacturer. Another important feature of this Act was that it marked the beginning of the compulsory education of children.

The Ten Hours' Day

The advocates of reform regarded the Act as an attempt to sidetrack the 10-hour day movement. The agitation was intensified and when the Conservatives came to power under Sir Robert Peel (1841), the struggle entered a decisive phase. In 1844 Peel's Factory Act was passed. The limitation of the working hours of young persons to 12 hours per day was continued, and a similar restriction was placed on the working hours of women, so that by that time legal protection was offered to all classes of factory workers except adult men.

The agitation for 10-hour day movement continued and it came to be associated with the struggle for the repeal of the Corn Laws. The manufacturing interest was in favour of free trade and opposed to factory reform. The Tories who were antagonistic to free trade were ready to support factory legislation. As the Corn Law was repealed in 1846, (hurting Tories but helping the manufacturers) so was a Factory Law enacted in 1847, which fixed the working day at 10 hours for women and young persons. The Act was amended in 1850 and 1853 the amendment fixed the normal working-day between 6 A. M. and 6 P. M. in the summer and between 7 A. M. and 7 P.M. in the winter. The adult male workers secured the privilege of a 10-hour working day. Marx hailed the passing of The Ten-Hour Day Bill as a great victory of 'not only English but of the modern working class generally'.

Extension of the Acts to other Industries

The factory laws were gradually extended from the textile trades to all other industries. Already the mines had been regulated in 1842, when the underground employment of women and children was forbidden. An Act of 1867 extended the application

of existing laws to iron, engineering, paper, glass, printing, tobacco and book-binding industries. The Workshop Regulation Act of 1867 introduced a distinction between a factory and a workshop (workshops were distinguished from factories by the fact that power-driven machinery was not used in the former); regulation was extended to workshops as well as to factories. In 1878 the existing Factory Acts were consolidated into one general Statute. Five types of establishments were distinguished in the Act, and separate bodies of regulation were applied to each type. The types of establishments were : (1) textile factories, (2) non-textile factories, (3) workshops employing workers under 18 years of age, (4) 'women's workshops', (5) domestic werkshops (i.e. situated in private houses in which work was carried on by members of the family living there).

Clash with 'Women's Right'

In this phase of extension of factory legislation to other trades, there was an opposition from an unexpected quarter. The supporters of the recently started movement for the improvement of the political, social and economic status of women came mainly from the upper and middle classes. They resented women's exclusion from the franchise and from some specific professions, and agitated for the removal of these disabilities. They denounced the factory laws on the ground that they imposed unfair restrictions on the female labour. This objection was based on a complete misapprehension of the purpose of factory legislation and an unjustifiable distrust of trade unions of men. The progress of factory legislation, however, suffered little from his temporary opposition.

Further Attempt at Codification

The Factory Act of 1883 Formulated special rules for the protection of health of white-lead workers. The Act of 1889 took special care for the health of the cotton textile workers. By an Act 1891 the minimum age of employment was further raised to 11. An Act of 1895 limited the work of children to 30 hours per week. The Acts of 1896 and 1898 provided for protection

against occupational diseases. In 1901, a further attempt at consolidation and codification was made. This Act remained the basis of factory legislation in England until 1937.

The Last Phase

The principle of factory legistation continued to be extended to all types of industries and trade. Until to-day there is scarcely any form of labour in the U.K. which is excluded from regulation. The Act 1937 reduced the maximum working week for women to 48 hours, and for young persons under sixteen to 44 hours. The Acts of 1950 and 1959 extended the same process—reducing working hours, improving sanitary conditions, taking precautions against accidents and occupational diseases, making provisions for holidays and holiday resorts.

Conclusion

The results of factory legislation have been very satisfactory. To-day the British working population is physically and mentally far in advance of that of a century ago.

A very interesting aspect of factory legislation in England is that it clearly brings out the causes of shifts in the attitudes of major political parties to the reform of the conditions of labour. In the earlier part of the 19th century the Tor. —the Conservatives—championed the cause of reform, while the Liberals—the capitalists and the middle classes—opposed it. In later years, the Liberals accepted social reform but the Conservatives, because of their hostility to Socialism, began to oppose it.

CHAPTER XV

THE POOR LAWS

IN THE MIDDLE AGES the standard of life for the mass of the people was low, but there was no problem of pauperism. In the 16th and 17th centuries, the break-up of the medieval economic system, the expansion of commerce and industry and the enclosure movement created the new problem of pauperism. It was then assumed that beggars were lazy persons who preferred idleness to work ; and brutal laws were passed to reduce the number of beggars in the country. But soon the staggering rise in the number of beggars and destitutes left the State with no alternative but to accept complete responsibility for them.

The foundations of the English Poor Law System were laid by the Elizabethan Statute of 1601. The three main classes of the poor—the unemployed, the idle and the impotent—were separately considered ; the honest unemployed were to be given work by the parish authorities ; the idle were to be detained and compelled to work in the 'houses of the correction'; the aged and the sick were to be relieved in their homes ; and pauper children were to be apprenticed to useful trades and put in a position to earn their own livelihood. The ecclesiastical area of the parish was made the unit of the Poor Law administration, and each parish became responsible for its own poor. The cost of the relief to the poor was to be met mainly from a rate levied upon every householder of the parish. Since there was no central supervision, there were great variations in the different parishes as regards the treatment of paupers. Some parishes tried to make the life of paupers as miserable as possible and forced them to leave that parish. The idle moved towards those parishes with the best reputation for generosity, while poor persons migrated in order to improve their prospect of obtaining relief. The Settlement Law of 1662 was passed to protect the rich and generous parishes against invasion by paupers from poorer and harsher parishes. By this law, a parish could remove any newcomer within 40 days

f he was considered likely to become an object of poor man's relief. The Act was passed with the best intentions but the results were dangerous. *First*, labour became immobile on the eve of the Industrial Revolution when mobility of labour was all important. *Secondly*, a new kind of slavery was imposed on the poor. He became practically a prisoner within his own parish. He could not leave it to seek work or to try to better his condition. (This dangerous situation continued up to 1795, when the needs of new industries for increasing supply of labour forced the government to forbid removal of newcomers by the parish until they actually turned out to be destitutes.) In 1722 the Workhouse Act was passed which permitted parishes to combine to build workhouses in which the poor could be housed. People who declined to enter the workhouse were refused relief. Normally, a contractor undertook to maintain the inmates for an agreed sum. The living condition in workhouses was so bad that poor people had to desert it. A deserter was invariably refused relief and in this way the workhouses brought about a decline in growth of pauperism.

Industrial Revolution and Pauperism

The nature and dimension of the problem changed during the Industrial Revolution. The industrial development brought about the separation of industrial employment om agricultural employment; agricultural workers lost part-time occupation in village industries and migrated to developing towns in large numbers. Food prices went up but wages remained more or less unchanged. Unemployment depressed the wage level and helped new industries; but the distress and misery of the working class knew no bounds.

The first important change in the Poor Law was made by Gilbert's Act in 1782. Thomas Gilbert, a philanthropic country gentleman, promoted this legislation. The importance of the legislation lay in the fact that it tried not only to bring about changes in the administration of the Poor Laws but also to influence the principles governing the distribution of the relief. Previously, the unpaid overseers of the parish administered the Poor Laws in accordance with local feeling. The unpaid overseers became

corrupt, and their work was badly done. Now, the Justices of the Peace were made responsible for distributing the relief. They might appoint paid 'guardians' to carry out the work. The parish was blamed for much of the costliness and inefficiency of the Poor Law administration, and unions of parishes were now formed for the purpose of economy and efficiency. But little improvement in administration resulted from this Act. The Law was optional and less than 1,000 out of 16,000 parishes in England enforced its provisions. But the result of the change in the principles of distribution was great. The Law stated that only the aged, the sick, the able-bodied poor should be supplied with work or sustenance in their own homes. Though the Law was inspired by the best of motives, it created new problems. The sanctioning of the wholesale system of outdoor relief resulted in a sudden and great increase in expenditure. The situation was further aggravated by the Speenhamland Justices. In the year 1795 the Justices of Berkshire met at Speenhamland to consider the situation created by the distress of the labouring classes. They decided to grant allowances to labourers when their wages were too small; the amount of the allowance was to vary with the size of the labourer's family and with the price of bread.

Consequences of Gilbert's Act and the Speenhamland Policy

There can be no doubt that the outdoor relief and the allowance system were inspired by the best of motives. "The need for action was instant; the poor were in danger of starvation. There was no time for the establishment of a wise and well considered scheme for dealing with the question..."[1] The allowance system succeeded in protecting the poor from actual starvation. But its effects were fatal in the long run. (1) Wages continued to remain at a very low level. As the labourers were granted relief when their wages were too small, it was possible for the employer to pay much less than was required for subsistence. The workmen saw no reason to try for an increase in wages because that would entail a reduction in the amount of the allowance with the result that they would get no net benefit. Hence the system was actu-

[1] Southgate, *op. cit.*, p. 284.

ally subsidising the employers at the expense of tax-payers. (2) The poorer section of the rate-payers—the poorer landowners —were ruined. As wages fell and pauperism increased, the rates of tax also rose and a point was soon reached when the rates grabbed the whole income from the small landed property. The small landowners had to give up their land ; and land gradually went out of cultivation just at a time when an increasing population required more food. (3) Labour morals declined ; the labourers ceased to look upon the dole as involving a loss of honour ; they regarded it as a right. There was no inducement to a worker to be industrious or to attempt to increase his skill, since no improvement in his circumstances would follow. As the allowance was based on the size of the family it was to his interest to marry and rear a large family. "The sons and daughters saw the good effects of the opportunism of their parents, and had known nothing but pauperism from their birth ; this then became hereditary."[1] The principle of distribution of relief forced the honest, independent labourer to enroll himself as a pauper. First, in spite of his skill, honesty and industriousness, he could never obtain a better position than his pauperised competitor. Secondly, he found his independent position an obstacle to his obtaining employment, employers preferring to engage paupers as they did not require ever subsistence wages. Before these fact were fully realised the working class of the country was almost completely pauperised. (4) As the members of the family became quite independent almost from childhood (a son could obtain poor relief at the age of 14), the ties of affection were generally weakened. "Family ties were broken, and a real proletariat formed."

The only section that benefited immediately was the employers, specially the manufacturers. Industries sprang up in thoroughly unsuitable places (e.g. Essex), where labour was cheap because of abundance of pauper labour

Poor Law Commission and the Act of 1834

The gravity of the situation was brought out by the steadily mounting expenditure on the relief to the poor. The heavy

[1] Briggs and Jordan, *op. cit.*, pp. 225.

financial burden of the poor relief gave point to the criticisms brought against it by economists. Thomas Malthus singled out the allowance system for special attack because it stimulated the growth of population and increased the number of paupers. Others accused the system of encouraging idleness and discouraging saving and keeping down the level of wages.

Principle of 'Less Eligibility'

In 1832 a Royal Commission was appointed to examine all aspects of the problem. The Commissioners were firm believers in the economic dectrine of Individualism. One of them, Nassau Senior, was a famous economist. They wanted to reduce the distribution of poor relief to the minimum and to prepare the way for its ultimate removal. The principle they adopted for the distribution of relief was known as the principle of 'less eligibility'. The condition of the pauper should be made less eligible (i.e. more miserable) than that of the worst situated independent labourer of the lowest class. To achieve this end, they proposed the tolal abolition of outdoor relief to the able bodied and the 'institution of a severe penitential regime in the workhouse', so that the relief would be the last resort of the idlers.

The Poor Law Amendment Act of 1834 was based on the recommendation of the Royal Commission. Parishes were grouped into unions, each of which built a workhouse. The control of the relief operations was handed over the 'guardians' elected by the rate-payers. The voting system was so devised that wealthy persons had more votes ; the result was that they 'were less lavish' with their own money and the relief expenditure was reduced to the barest minimum. To ensure national uniformity of the relief operations, the guardians were placed under the control of a Central Poor Law Commission with extensive powers of inspection and audit. The principle of distribution also was changed drastically. To reduce the distribution of outdoor relief the 'workhouse test' was systematically imposed. The living conditions in the workhouse were made as disagreeable as possible.

Results of the Act of 1834

The new system was vigorously opposed in the industrial districts. The new workhouse were called 'bastilles' and were scrupulously avoided. The factory reformers and radical Chartists described the Act as 'falsehood warring against truth ; tyranny against justice ; Satan against God'. But the agitation failed and the Commissioners proceeded with the ideal of total abolition of the outdoor relief. Some favourable circumstances helped them in this direction : the building of the railways in the 1930's and '40's, and the general industrial expansion of the period provided fresh outlet for employment and reduced the volume of involuntary unemployment. While in the 1830's there were more than 1 million able-bodied adult paupers in England, in 1849 the number came down to 133,000—all of whom had to live in workhouses. It was claimed by the supporters of the new law that it had rescued the labouring classes from utter and permanent degradation. "The ultimate effect of the change was to re-establish the principle that a man must maintain himself by his own exertions and that, if the community is compelled to assist him on account of his inability to support himself, it is entitled to do so in a way which offers no attraction to the idle."[1] But it must not be overlooked that it also caused a great deal of human suffering. The Commissioners believed in the teachings of classical economist. The Malthusian dogma exercised great influence upon their recommendations. They concentrated their attention on the able-bodied idlers and ignored the fact that the aged, the sick and the children formed the majority of the paupers. While they reduced the amount expended on relief, they did nothing to reduce the extent of poverty. They failed to realise that most of the able-bodied poor were involuntarily unemployed and that they had no right to deprive them of public assistance.

Twentieth Century

In the second half of the 19th century there was some relaxation of the rule against the granting of the out-door relief to the

[1] Southgate, *op. cit.*, p. 286.

able-bodied ; this took the form of food or medicine. Pauper children received more favourable treatment. After 1886 the 'less eligibility' principle was rigorously applied against tramps and vagrants, but more sympathetic treatment was meted out to the really deserving poor. This humanitarian spirit was stimulated by the researches of some scholars among the poors of London and York. They showed that 30% of the population of London were living in permanent poverty and 28% of the population of York were living below the minimum standard of life. "These revelations of social canker in the richest country in the world caused much moral uneasiness." The whole question of pauperism was investigated once again by a Royal Commission appointed in 1905. The Commission was unanimous in the analysis of the defect of the existing system of the poor Laws, but the members were divided on the question of remedies. The Majority report recommended the establishment of a unified poor Law Authority, while the Minority recommended the distribution of its functions among existing local authorities. The Commission suggested that a more thorough classification of persons coming under the Poor Law should be made : while children should be cared for more sympathetically, the vagrants should be sent to labour colonies and compelled to work under strict discipline.

Though the report was published in 1909, it did not lead to any new legislative measure, and no general measure of reform was brought forward for nearly 20 years. The depressions following the War of 1914-18 forced the authorities to have a new look at the old problem. The development of State Insurance also made some necessary changes in the administration of the Poor Laws. By the Local Government Act of 1929 existing areas and authorities were abolished and the work of the Poor Law administration was transferred to County Councils and County Borough Councils. The greater area of the poor Law administration resulted in economy and efficiency of working.

After the Second World War, pauperism reappeared in a much virulent form. By the National Assistance Act, 1948 a National Assistance Board was established with the following functions :

1) to provide for the maintenance and training of blind persons ;
(2) to provide for the maintenance and treatment of T. B. patients ;
(3) to provide for the training and rehabilitation of vagrants ;
(4) to make provision of homes for old people. The poor Law has been renamed as National Assistance, but the problem remains.

CHAPTER XVI

SOCIAL SERVICES AND SOCIAL INSURANCE

IN A COMPLEX industrial society, an individual of moderate means is exposed to a large variety of risks and uncertainties against which he is more or less helpless. Social insurance is a co-operative or collective method designed to protect the working classes against risks to which they are particulary exposed—industrial accidents, sickness, unemployment and old age. Such protection can be given through voluntary associations or under the control of the State.

Friendly Societies

The voluntary form of social insurance was naturally the first to develop. In England, the friendly society movement has a long history. The first friendly societies of the 18th century were sick and burial clubs. Gradually county clubs made their appearance under the patronage of a mystic sect, the freemasons. In the second part of the century, the 'New Model' trade unions made the distribution of sick and unemployment benefits an important branch of their activities. While the early friendly societies were mismanaged due to lack of honest and efficient administration, the management showed a steady improvement under the trade unions. This became possible mainly because of the general advance of the science of insurance (e.g. actuarial science). The earlier societies used to fix a permanent low subscription rate (for their members) sufficient to meet the needs of the current year. But as time passed, their members grew old and were exposed to different risks ; liabilities increased but the premium-income did not rise sufficiently to match the liabilities. The result was the failure of the friendly society and the emergence of a new group of paupers. The new friendly societies avoided this mistake.

The government also exercised its legislative powers to promote good management of the friendly societies. But the concept of State-controlled social insurance could not become popular in Great Britain which was wedded to *laissez-faire* principles.

State System of Social Insurance

Though Germany came on the industrial map of Europe much later than Great Britain, she was the pioneer in the field of provision of social insurance through the agency of the State. A group of German economists, known as the '*Socialists of the Chair*' strongly criticised the doctrine of *laissez faire*, and pleaded for the establishment of a compulsory scheme of social insurance under the direct control of the State.[1] Bismarck established the State system of social insurance in Germany in 1883. The first step in this direction was taken in Great Britain in the first decade of the 20th century.

(*a*) *Provision for Old Age*

When a worker gets old, his needs multiply but his earning capacity vanishes. So he should save for his future. But the average young person is not troubled very much by the thought of future, and he is not likely to forego present enjoyment for the prospect of maintenance at an old age. So the State should come forward to help him either by paying him a pension (in his old age) out of its own coffer or by forcing him to set apart a part of his present income for his old age. The first is known as non-contributory and the second as contributory pension scheme. The Old Age Pension Act of 1908 was non-contributory in nature. Every person of 70 years of age and over, provided his income was below a certain level, was entitled to a pension of 5*s*. a week. After the First World War the weekly pension was raised to 10*s*. In 1926, the non-contributory scheme was supplemented by the Old Age and Widows Pensions Act. All

[1] The *Socialists of the Chair* were not socialists, but they strongly criticised the doctrine of individualism. They were nicknamed *Socialists of the Chair* because most of them were professors.

persons covered by the 'Health Insurance Scheme' of 1911 were now required to make additional weekly payments, in return for which each contributor and his wife became eligible at the age of 65 for a weekly pension of 10*s*. The employers were required to contribute the same weekly amounts to the Old Age and Widows Pension Fund. If the contributor died before 65, pensions were paid to the widow, and allowances were granted to the orphan children. In 1937, 20 million persons were insured under the scheme.

(*b*) *Provision for Sickness*

The National Health Insurance Act of 1911 made sick insurance compulsory on all manual workers and on non-manual workers whose annual income was less then £160. The cost of the scheme was shared between employers, employees, and the State. The benefits were as follows : (1) free medical attendance and medicine during sickness,treatment in sanatoria, and a weekly payment of 10*s*. in the case of a man and 7*s*. 6*d*. in the case of woman, up to a maximum of 26 weeks a year ; (2) after the 26th week, a disablement benefit at the rate of 5*s*. a week ; (3) the wife of an insured person received a maternity benefit of 30*s*. for each confinement:

No major change had been made in the scheme since its inception. But the fall in value of money made it necessary to make periodical changes in the scale of contributions and benefits. The soundness of the scheme was proved by the fact that before the Second World War, though more than 13 million workers were covered by the scheme, the burden on the State was negligible (the State bore 2/9ths of the cost of the scheme).

(*c*) *Unemployment Insurance*

A limited scheme of unemployment insurance was adopted in 1911. In the experimental stage, it applied to three industries : house-building, ship-building and engineering. The employer and employee paid equal contributions while the State bore ⅓th of the cost of the scheme. Some restrictions were added to reduce the claims of unemployed workers. The benefit (7*s*. a

week) was payable after the payment of at least ten contributions; for every five contributions, the insured worker was entitled to one week's benefit; the maximum period during which the benefit could be drawn was fifteen weeks for a year. Because of these restrictive measures the scheme appeared to be successful. Emboldened by the low level of unemployment during the war years, the government extended the scheme in 1921 and estabilshed an insurance scheme for the whole working population. Certain classes of workers (such as farm labourers, domestic servants, some grades of railwaymen) that were regarded as immune from unemployment were exempted. The insured population numbered about 12 million. The contributions remained more or less the same, but the benefit was almost doubled.

The grand scheme was launched in 1921. This coincided with the beginning of a prolonged industrial depression. The scheme was intended to provide against periodical and temporary unemployment of the type with which English people were familiar before the First World War. But just after the short-lived post-war boom, a prolonged and semi-permanent industrial depression visited Great Britain. For eight years since 1921 the number of unemployed workers had never fallen below one million. The heavy expenditure on unemployment benefit resulted in a series of annual deficits. In 1926, the accumulated deficits swelled to a total of £21 m. and in 193' it reached £60 million. So drastic upward revision of the contribution rates and downward adjustment of the benefits were undertaken to reduce expenditure and to increase 'income'. At last in 1934, a comprehensive scheme for putting unemployment insurance on a permanent and financially sound footing was presented to Parliament. The unemployed persons were divideded into *three* categories according to eligibility for receiving: (1) unemployment insurance benefits, (2) unemployment assistance and (3) public charity. An unemployed person was entitled to insurance benefits for a specific period of time (e.g. by the Act of 1931 the period of benefit was limited to 26 weeks in any year) and if he continued to be unemployed beyond that period, he was given unemployment assistance. The public charity or the public assistance was meant for the able-bodied poor who were given

out-door relief under the Poor Law. By the Act of 1934, insurance age was lowered to 14 and provision was made for training courses for the unemployed. In 1936, the scheme was extended to agricultural workers and in 1939, the total number of insured workers reached 14 million.

(*d*) *Provision against Industrial Accidents*

In Great Britain there was no provision for State insurance against industrial accidents. The employer's liability in such case was first enforced by the Employers' Liability Act of 1880. Until 1880 an injured worker could claim compensation from his employer only with the help of the court, and no compensation could be claimed if the employer was innocent of negligence. The Act of 1880 defined the responsibilities of the employer and provided that compensation was payable even when the accident had occurred not due to the negligence of the employer. By the later Acts (known as Workmen's Compensation Acts) of 1897, 1906 and 1923 the principle was accepted that the average workman's wages were too small to allow him to make provisions against the risk and that compensation should be paid even when the employer was not guilty of negligence on his part. The Act of 1923 applied to all workers in factories and mines. A fully incapacitated worker was to be paid one-half of his wages up to a maximum of 30 shillings a week ; a partially disabled man was to be paid one-half of the difference between his former wage and his present earning. If the accident was fatal, the widow received a sum between two and three hundred pounds and the childern received allowances up to a maximum of 600 pounds.

A Total Picture of Social Insurance : *Beveridge Plan*

The system of social insurance in England had been in the process of formation from the early 20th century. The old age pension began in 1908 ; national insurance against sickness and unemployment in 1911 ; widow's pension in 1926. In course of a quarter of a century the system of social insurance had made significant headway, and by 1930 it had covered a large propor-

tion of the working people and old people. Total cash benefits paid under different social security schemes had jumped from £25 million in 1914 to £56 million in 1938-39. Of this nearly one-half came from the Government and the larger part of the rest came from the contribution of employers and employees.

During the War of 1939-45, Lord Beveridge, an associate of the Webbs, was invited by the Government to work out a comprehensive scheme of social insurance. The famous Beveridge Report came out in 1942. It outlined a comprehensive scheme of social services which should give all men the *Five Freedoms* —Freedom from *Want, Disease, Ignorance, Squalor and Idleness.* It stressed that the avoidance of undesirable levels of unemployment (three per cent in the case of Great Britain) was the primary task of a government. *Assuming full employment* (in this sense) *and assuming the introduction of family allowances and a health service*, the plan proposed a comprehensive system of social insurance embracing all the previous benefits (viz. sickness, unemployment, maternity, old age pensions, widow's pension, accident benefits). This plan, which was designed to bring into national life a sense of community, was greeted with general enthusiasm. The Government accepted most of the proposals and embodied them in a series of Acts passed between 1944 and 1948. In 1944, the Government published a White Paper in which it assumed responsibility for a high level of employment. In 1945, the Family Allowance Bill was passed. This Act provided for a cash allowance for all children of the family except the first. Minor measures of the period included free milk for children attending school. In 1946, a National Insurance Act was passed by which all the above-mentioned benefits were brought into a single scheme. The Scheme covered most persons between the ages of 16 and 65. The rates of contribution under the Scheme were different for employed, self-employed and unemployed persons, and for man and woman. The National Health Services Act of the same year established a comprehensive system of the free medical service for all inhabitants of Great Britain, irrespective of nationality.

In post-war Britain, social security provisions attained a reasonable completeness. Nearly 40% of the total Government expenditure was allotted to social services and food subsidies.

Unemployment presented no problem because in the post-war industrial boom employment at good wages was more or less secure. But retirement pensions gave frequent difficulty partly because inflation continually eroded the value of many benefits and partly because increases in rates of benefit became something in the nature of a bribe for electors.[1] 'Security from the cradle to the grave' was perhaps too high a claim for the Scheme. The post-war economic problems and the rearmament programme of the '50's obstructed Britain's economic progress to such an extent that she could not become a full-fledged 'Welfare State' in the accepted sense of the term.

[1] Youngson, *op. cit.*, pp. 218-19.

CHAPTER XVII

THE ENGLISH BANKING SYSTEM

Circumstances Leading to Modern Banking

In the Middle Ages, public banks were established in several cities of Italy which were also important trading centres at that time. Public banks established at Venice in the twelfth century, and at Genoa in the fourteenth century carried on business in several parts of Europe. The expansion of trade and commerce in the sixteenth and seventeenth centuries led to the establishment of numerous public and private banks in many other cities in Europe, notably at Amsterdam and Hamburg. But *banking*, in the modern sense of the term, did not exist in England. Though money-lending at usury was practised by the Jews before their expulsion from England in 1290, and though Crown occasionally negotiated loans from wealthy merchants, such transactions cannot be regarded as even a rudimentary form of banking.[1] In fact, *objective circumstances in England at that time was not conducive to the growth of modern banking.* In a period when the use of borrowed capital for productive purposes was more or less unknown, it was natural that usury was regarded as immoral and was prohibited by law. But with the expansion of trade and commerce during the Tudor period, this attitude began to change; it now became permissible to accept interest on a loan which might be used by the borrower to conduct a profitable business. Finally, an act of 1624 legalised the exaction of interest and permitted a maximum rate of interest of eight per cent. *With the legalisation of the payment of interest modern banking was free to develop.* Other conditions which could make modern banking possible were also fulfilled. There had been an accumulation of capital awaiting investment; the use of credit instruments, and the practice of trading on borrowed capital had

[1] Southgate, *op. cit.*, p. 296.

also developed ; above all, there had been a general feeling of economic security.[1]

Merchants and Goldsmiths

Modern banks may be classified as banks of deposits and banks of issue. The banks of deposit receive deposits from the public with a view to making loans. *Deposit banking developed in England in the early seventeenth century* after an Act of 1624 finally legalised receipts and payments of interest. At first, some merchants performed these functions. They employed their surplus funds in making loans at interest. Soon, however, a much more important group of London goldsmiths began to enter the business of banking. Their advantages over the merchants were twofold. *First*, they had more resources ; as early as Elizabeth I's time they were dealers in foreign money, and their strong-rooms afforded protection for the valuables of the merchants and gentry during the periods of troubles and uncertainty. *Secondly*, during the periods of brisk business, the merchants were able to employ surplus funds more profitably in their own commercial activity than in making loans at interest. But the goldsmiths' own line of business never expanded so much as to absorb their surplus funds, and they were always ready to lend money at interest.

At first the goldsmiths used to employ only their surplus funds to make loans at interest. They also received sums of money from their customers for safe keeping, on promise of repayment on demand ; for this money they paid no interest and this money they did not lend. But soon they realised that it was unlikely that the whole of the money deposited with them would be required at any one time for repayment, and they found it possible and profitable to lend out a part of it at interest, keeping another part to meet all probable demands. *When they liked to make loans at interest they issued notes payable on demand*, and when confidence in their ability to honour these notes was fully established they were able to extend their issues ; they thus had already 'created' money. When they discovered their own

[1] Briggs and Jordan, *ibid.*, p. 156.

power, they began to attract deposits by the offer of interest. And *out of the receipts issued to their depositors developed the cheque and the Bank note.*

In course of time they began to advance money to the Crown. And this paved the way for their destruction. In 1672, Charles II, who had borrowed freely from the goldsmiths, suspended repayments to them; they, in their turn, were unable to meet the claims of their depositors, and a serious financial crisis followed. The system of deposit banking which the goldsmiths have established survived but they gradually lost their importance.

Establishment of Bank of England

A very important criticism levelled against the goldsmiths was that because of the limitedness of their resources they were offering as much as six per cent interest to depositors and were, naturally, lending at rates still higher. This high rate of interest was extremely inimical to the expansion of trade and commerce of the period. The critics, therefore, contended that *banking ought to be in the hands of a chartered institution which would control larger resources, command more general confidence*, and would play an important part in reducing and steadying the rate of interest.

All these considerations led to the establishment of the Bank of England in 1664. Another factor which expedited the establishment of the Bank was rather political. William III had spent much money in his wars and was in need of more money. But borrowing was rather difficult because his government was thought to be unstable. The Tory Party disliked him and wanted Stuart restoration. The Whigs, on the other hand, were compelled to support him because a Stuart restoration meant their ruin. Many of the Whigs were rich and powerful traders and they were eager to help William III to tide over this borrowing difficulty. Working on the suggessions of *William Paterson*, a Scotsman, a group of rich traders formed a company which lent £1,200,000 to the Government at an interest of 8 per cent. In return, the company was given a charter to carry on business of banking, i.e. to issue notes, to discount bills, to make loans on

security, and to receive deposits. This company was called the Bank of England.

The Bank issued notes to the amount of its loan to the Government. From time to time it assisted in the raising of further loans. The charter of the Bank was granted for a limited period only, and it had to be renewed periodically. *From time to time it took advantage of the necessities of the Government to extort new concessions. In return, it made gifts and additional loans to the Government.* For example, in 1708, it was enacted that no other bank with more than six partners should be established with the privilege of issuing notes. This gave the Bank of England a monopoly of joint-stock banking, for the issue of notes was regarded as so essential to banking in general that no joint-stock bank was formed until after the relaxation of the rule in 1826. This monopoly of the Bank in joint-stock banking did much harm to the development of a sound banking system in England. For nearly a century after 1708, the only competitors of the Bank of England were the private bankers—the goldsmiths. This retarded the transition from private to joint-stock banking for a century. If joint-stock banking had been legal at this time, the banking development would have proceeded upon sounder lines.

It has sometimes been suggested that *the formation of the Bank of England was a watershed dividing the old conditions of banking from the new.* Indeed, the bank brought about a radical change in the financial circumstances of Britain. It aided the accumulation of capital by giving depositors a guarantee of security; wealth that had previously been privately hoarded began to enter the service of industry and trade through the medium of the Bank. *Secondly,* it played an important part in reducing and steadying the rate of interest, and it had an equally beneficial effect on fluctuations in the foreign exchange rate. *Thirdly,* the developing foreign commerce brought the Bank into close touch with the banks of other countries. By initiating the beginning of organised banking in the country, it successfully developed an international money market in London which began to attract funds from all over the world. The developing industries, therefore, were able to use not only the funds of their own country but also those of other countries.

Private Banks

The monopoly of joint-stock banking conferred upon the Bank of England by the Act of 1708 left the private bankers as the only competitors of the Bank of England. Partly for this and partly for the fact that the growth of industry and trade necessitated a greater use of currency and loans, private banks developed rapidly after 1700. The process was further facilitated by the liability of the Bank of England in extending banking facilities to provincial towns by establishing its branches in them. The results were not altogether happy ; there was no check on the small banks, and they often came to grief.

In its early stages (private) banking was mainly an issue business which was extremely profitable because the cost of production of the notes was negligible. But these notes were payable on demand and if at any time doubt should arise about the solvency of the private 'banker', his notes would be presented for payment, and his failure to honour them would result in loss and ruin. *Several financial crises in the eighteenth century forced the private bankers to shift their main attention from issue business to deposit banking.* Indeed, by 1780, the London private bankers had almost given up the practice of note issue as their notes were unable to compete with those of the Bank of England. They kept their reserves largely in the form of Bank of England Notes and encouraged their customers to develop the habit of the cheque. The position, however, was not the same with the country private bankers. The issue of notes was their primary business down to the Bank Charter Act of 1844.

Private banking had its strength and weaknesses. The main point in its favour was that it was owned and run by men with an intimate knowledge of local affairs. Indeed, the private bankers, for the most part, had been businessmen and traders. Therefore, there was a bond of sympathy and understanding between the private banker and his customer which was usually lacking between the customer and the manager of a joint-stock branch bank. Moreover, the private banker had a free hand in taking decisions and in taking risks. In the early days of the Industrial Revolution risks—financial as well as industrial—had to be taken and quick decisions made, and private banking was better suited to these

than the more rigid joint-stock banks whose paid managers were naturally not disposed to take risks.[1]

But against such advantages, private banking had several fundamental weaknesses. The *first* was that it was mainly local banking, and in consequence, entangled with and dependent on local economic conditions. A banker in a small industrial town had his assets locked up in an industry and a depression in that industry ruined him. Similarly, a banker in an agricultural district was liable to be placed in a very serious position by the failure of harvests. The *second* fundamental weakness of the private banking system was that the majority of the banks were small and financially weak. The Act of 1708 prevented the linking up of banks in different areas by means of extended partnership.[2] As a result, these small and financially weak banks could neither withstand any period of strain and stress nor could meet the ever-growing financial needs of the expanding trade and industries. *Lastly*, the unlimited right of note issue was a dangerous weakness of the private banking system. It was very difficult to overcome the temptation of issuing notes far in excess of gold resources. The process was easy as well as profitable, and it might be done without any harm as long as customer had confidence in the soundness of the banker. But if at any time doubt should arise about his solvency, his notes would be presented for payment in gold and his inability to honour them would result in the ruin of the bank. A single bank failure would start the ball rolling and bring about the collapse of many other banks. Indeed, the note issues of the private bankers were held responsible for many financial disturbances throughout the eighteenth and the earlier half of the nineteenth centuries.

Joint-Stock Banking

Towards the end of the Napoleonic War, particularly after the return of peace in 1815, a strong movement sprang up in favour of the legalisation of joint-stock banking. Its advocates contended that the evils of the existing system, (specially, evils of over-issue and evils of inadequate supply of loans) could be

[1] Briggs and Jordan, *op. cit.*, p. 472.

[2] It was illegal for a bank to issue notes if it had more than 6 partners.

corrected only by legalising joint-stock banking. In 1822, *Joplin* published a pamphlet on the *General Principles and Present Practice of Banking in England and Scotland.* In this pamphlet Joplin clearly demonstrated the advantages of the Scottish system in which the Bank of Scotland, (founded in 1695) unlike the Bank of England, enjoyed no monopoly of joint-stock banking. The pamphlet attracted wide attention of the business circles. The financial crisis of 1825 brought matters to a head. In six weeks more than seventy banks failed. The result was a triumph for Joplin's campaign.

Acts of 1826 and 1833: In 1823 the government offered to extend the Bank of England's charter until 1843, if the Bank would consent to a limitation of its monopoly power to London and the surrounding country within a radius of sixty-five miles, so that other joint-stock banks might be established in provincial towns. But no action was taken at that time. After the financial crisis of 1925 action could be delayed no longer. The Bank of England was offered the choice between the active exercise of the powers enjoyed under its monopoly by opening branches all over the country, and the surrender of its privileges beyond the sixty-five mile limit. The Bank chose the latter course, and in 1826 an Act was passed allowing the institution of joint-stock banks, with the power of issuing notes, outside the radius of sixty-five miles from London. In 1833 joint-stock banks were permitted to transact business in London or elsewhere within the sixty-five miles limit, provided that they did not issue notes. The Bank of England, in return, received the statutory right to open branches in the provinces.

Subsequent Difficulties: Joint-stock banking at once responded to the stimulus. Between 1830 and 1839 four big banks—the London Joint-Stock, the London and Westminister, the London and Country, and the Union of London Banks—were formed. By 1841 there were over 115 joint-stock banks in existence in England. But joint-stock banks had to face several difficulties in this period in establishing their position in the banking world. *First*, public had little confidence in the new institutions; this was so because the Acts of 1826 and 1833 made no attempt to regulate their constitutions and management. *Secondly*, they suffered from the legal disability of being unable to sue or be

sued, a restriction which was not removed until 1838. *Thirdly*, they were unable to issue notes in any place within sixty-five miles from London. This limitation of their activities led them to rely on the deposit side of banking and to encourage their customers to make full use of the cheque system. *Fourthly*, they were hampered in that the principle of limited liability was not applied to them. It was not until 1862 that limited liability was permitted. *Fifthly*, most of them came into being as an amalgamation of two or more private banks. For the most part, too, they grew by absorption of other existing concerns. This partly explains their early unpopularity. Amalgamation implied monopoly, and monopoly had a sinister ring in most ears in the first half of the nineteenth century England. *Sixthly*, they were faced with the hostility of the existing privately-owned banks and they were at first refused admission to the Clearing House. It was not until 1854 that joint-stock banks were admitted to the Clearing House. *Lastly*, they had to face the hostility of even the Bank of England. But in spite of these difficulties, the joint-stock bank slowly but surely consolidated its position. The application of the principle of the limited liability to joint-stock banking since 1858 enabled larger joint-stock banks, with many branches, to be set up. These big banks with many branches had adequate resources to meet the ever-growing financial needs of the expanding trade and industries. In most towns branches of large joint-stock banks competed with the remaining private banks, and the elimination of the latter was only a matter of time. Gradually, most of the private banks were absorbed by joint-stock banks, of which they became branches.

Note Issue Controversy

The recurring financial crises of the period agitated all thoughtful minds, and they tried to penetrate the secrets of monetary instability. Two schools of thought developed on the subject. The currency school, headed by *James Lloyds*, a prominent banker, and *George Norman*, a director of the Bank of England, held that the bank note was merely a cheap substitue for gold, and that the root cause of all monetary instability that accompanied a paper currency was the tendency of the

banks to issue notes without adequate gold backing. Their prescription for curing monetary instability was simple: notes ought not to be issued to a greater amount than could be converted into gold; or, in other words, the amount of notes issued must not exceed the amount of gold held in the vaults of the bank. The school believed that the problems of booms and depressions and variations in the value of money could only be solved by controlling the issue of notes. They suggested, therefore, that the issue of notes should be separated from the business of commercial banking, and should be gradually concentrated in the Bank of England.

The banking school, led by *Tooke*, a statistician, and *Fullarton*, held that the amount of note issue should be determined by the legitimate requirements of trade. But how to determine the 'legitimate requirement' of trade? This the banking school was unable to define with precision. Tooke based his views on a study of price movements since 1793. His studies led him to reject the idea that prices could be influenced by any scheme of management of the note issue so long as the notes were convertible. This was obviously a truism; but their reply to the objection that banks had, in fact, sometimes issued notes which they had been unable subsequently to redeem was still more unsatisfactory. The central point of their reply was this: Bank notes are issued only on loan. When the loans were due to be repaid an equal value of notes must be returned to the bank. So any idea of regulating the note issue is superfluous; the note issue is self-regulating. If we examine this argument we find many weak points in it. *First*, a bill may be renewed, and in that case the notes do not return to the bank but remain outstanding. *Secondly*, the demand for loans (or discounts) can be influenced by the rate of interest (or the rate of discounts). So the cardinal error of the banking school was to deny the power of the Bank of England to influence prices through its Discount Rate.

In short, the great error of the currency school was to deny necessary elasticity to the currency system. The corresponding error of the banking school was to deny the power of the Central Bank to influence prices through the interest rate policy. But it was evident that safety and caution,—qualities which are of great importance in banking—lay with the currency school, and their views prevailed with the authorities.

The Bank Charter Act of 1844

The Bank Charter Act of 1844 was mainly based on the currency principle. But there was one important exception. The Fixed Fiduciary Issue System that was adopted permitted the Bank of England to issue to the value of £14,000,000 without gold backing. The Bank, however, was required to cover its issue in excess of £14 million by either gold or silver bullion, provided that the amount of silver bullion did not exceed twenty per cent of the total metallic reserve. The resason for this departure from the currency principle was purely practical; it relieved the Bank from having to acquire an amount of gold bullion it probably would have been unable to procure at that time.

Following the recommendations of the currency school, the Bank of England was to be divided into *two* departments: the Issue Department and the Banking Department. The latter was confined to ordinary banking business; the former was concerned with the issue of notes. The Banking Department was required to surrender to the Issue Department securities of the value of £14 million, the amount of the fiduciary issue, and it received in return notes of an equal value. Any person might demand notes from the Issue Department in exchange for bullion at the rate of £3 17*s.* 9*d* per ounce of 22-carat gold. Bullion received in the Banking Department in excess of immediate requirements was to be transferred to the Issue Department in exchange for notes. Normally, therefore, the Banking Department would pay out to its customers notes and not gold; those who wanted gold would obtain it in exchange for notes in the Issue Department. *Lastly*, the Bank was required to publish a weekly statement indicating the value of notes in circulation and the amount of gold in reserve.

The rest of the Act related to the note issues of other banks. No other bank in London possessed the privilege of issuing notes, but a considerable number (nearly 280) of country banks were entitled to do so. Again, whenever a private bank, entitled to note issue, acquired more than six partners, it lost its right to issue notes. It followed, therefore, that all private banks which were converted into joint-stock banks lost their right to issue notes. Or when a private banks became bankrupt, or dis-

continued its issue temporarily, it forfeited its right to issue notes. Moreover, a maximum circulation, approximately £8·6 million, was fixed for all banks other than the Bank of England. When the issue of a private bank lapsed, the Bank of England might increase its fiduciary issue (against securities and not against bullion) by an amount not exceeding two-thirds of the lapsed issue. In that way the Bank's fiduciary issue was gradually increased from £14 million to £19 million (in 1921). The elimination of the private bank note was a gradual process which was not completed until 1921, when the last-note-issuing bank, Fox, Fowler & Co. Ltd., of Wellington, Somersetshire, amalgamated with Lloyds Bank Thus the Bank came to possess a monopoly of the issue of notes.

The Bank Act of 1844 came in for severe criticism to the effect that it made the currency system too rigid. *Horsley Palmer*, a very distinguished ex-Governor of the Bank of England, pointed it out in advance and argued that it would make it impossible for the Bank to come to the rescue of the money market in the event of a future crisis. To this, *Sir Robert Peel*, the Prime Minister, had answered that the currency changes introduced by the Act would make future crises highly improbable. Peel was quickly proved to be wrong. Between 1844 and 1870, there were three crises of great magnitude, and on three occasions, in 1847, 1857 and 1866, it was found necessary to suspend the working of the Act by sanctioning a temporary increase in the fiduciary issue of notes. *The Act did not end the crises because the note circulation was only one factor in the problem of monetary instability.* Two other factors of equal importance were the central management of credit, and the elimination of small financially weak banks. The first problem was solved when the Bank of England became what is known as a central bank; the second by the amalgamation movement of commercial banks.

Development of Bank of England as a 'CENTRAL BANK'

The Bank of England accepted very slowly and reluctantly the idea that it had some responsibility for the currency and credit in the country. Down to the Act of 1844, and, indeed, even afterwards, the directors clung to the belief that, in spite

of its peculiar prestige, the Bank was only an ordinary commercial bank.[1] *But the Bank, through force of circumstances, slowly and surely shed its commercial functions and became a central bank round about 1870.* The beginning of the process can be traced back to the eighteenth century. The first step was taken when, largely due to the special prestige enjoyed by the Bank due to its connections with the government, the London private bankers developed the new practice of depositing their gold reserves with the Bank of England. The country bankers, in their turn, were in the habit of depositing their gold reserves with the London bankers. The Bank of England, therefore, gradually became the keeper of the gold reserves of the whole banking system of the country.

When acting as the keeper of the gold reserves of the whole banking system of the country, the Bank was forced by circumstances to take certain measures to reverse the occasional gold outflows. In theory, the dircetors of the Bank subscribed to the view that when gold flowed out of the country, their business was to sit still and wait for the natural course of events to reverse the flow. But in practice, such an attitude was impossible. The very solvency of the Bank called for positive action and that was done either by the Bank refusing to discount bills, or through the use of the Bank Rate Policy. Of course, until the Bank ceased to compete with other institutions for discount business, the bank rate had little significance as a weapon of credit control. In the crisis of 1783, when for the first time the Bank attempted some control of the money market, the control was exercised, not through the rate of discount, but by refusing to discount. In 1830, when John Horsley Palmer became Governor of the Bank, he worked out a fairly complete scheme of monetary management. He very wisely argued that in normal times the Bank should not compete for discount business which should be left to the ordinary bank. Normally, the Bank's investment should be in Government stock and other long-term securities. But in times of crisis the Bank should, at a discount rate higher than the market rate, discount bills for the money market gradually raising the rate to cut down the public demand for financial accommodation.

[1] Briggs and Jordan, *op. cit.*, pp. 478-80.

This part of Palmer's scheme is of fundamental importance as it *foreshadows the Bank as a Central Bank, and as the 'lender of the last resort'.*[1] Unfortunately, Palmer's scheme did not stand up to the crisis of 1839. In consequence, Palmer's ideas were discredited and the currency school gained the ascendancy. The result was the Bank Charter Act of 1844, which, from the standpoint of credit control by the Bank, was, to a certain extent, retrograde. The Act revived once again the theory that the Banking Department was just an ordinary bank with no special responsibility of the control of credit. The belief, however, was dispelled by the logic of circumstances. The Bank Act of 1844 did not end the financial crisis. The general public and Parliamentary Committees of Inquiry into the recurrent financial crises called for an active role on the part of the Bank to end the endless crisis. In addition, the Bank itself could not afford to leave its gold reserves at the mercies of the natural course of events. Circumstances compelled it to use the discount rate to control the market and protect its reserves. In consequence, between 1850 and 1870, it gradually withdrew from commercial banking and became a central bank. *It possessed a monopoly of the issue of notes, it managed the National Debt, and it became an adviser of the British Government on matters of financial policy. Indeed, by 1870, it had become more than a national bank.* It had been concerned in the stock issues of Dominion and colonial governments. By 1870 when the leading commercial nations of the world had adopted gold standard, the Bank of England discount rate had acquired an importance that was world-wide.[2]

Amalgamation of Banks

The amalgamation movement of banks dates back to the Joint-stock Act of 1826. From 1826 to 1841 a large number of joint-stock banks were founded on existing private concerns. In most towns private banks were absorbed by joint-stock banks,

[1] These words, 'the lender of the last resort' was coined by Walter Bagehot in his book *Lombard Street*, which contains a classic description of the relations between the Bank of England and the institutions of the money market as they existed in 1870 by which date the Bank of England had become the Central Bank.

[2] See Chapter XVIII.

of which they became branches. By 1836 the National Provincial Bank had 47 branches, and the Commercial Bank of England had 18. But the private banking suffered the heaviest loss in 1864 when the important firm of Jones Lloyd was absorbed in the London and Westminster Bank. Lloyds, which had been reorganised on a joint-stock basis, now moved its quarter to London, and so did the National Provincial Bank. In the 'seventies the Midland also effected some notable amalgamations. In 1896 Barclays carried through a gigantic amalgamation of 15 large private banks. In 1900 and 1901 Lloyds absorbed some more banks. Since the beginning of the twentieth century it had become established beyond doubt that the small banks could not compete on equal terms with the large joint-stock institutions. In fact, during the latter part of the nineteenth century business enterprises began to be conducted on a vast scale, and the ever-increasing size of the industrial and commercial units necessitated a corresponding change in the size of banks.

The war years, 1914-18, gave further impetus to combination, and foreign extensions were also made. The National Provincial formed a company to operate in France ; the Midland opened an office in Russia ; the London and Westminster established a branch in Spain. Lloyds acquired a controlling interest in many foreign banks and assumed an unchallenging position in the world of banking. By the end of the war, the great bulk of the banking business of country passed into the hands of the 'Big Five'—Barclays, Lloyds, the Midland, the London and Westminster, and the National Provincial.

Growth of Government Control of the Banking System

The connection between the Bank of England and the Treasury had long been very close. This was particularly so since 1931 when gold standard was abandoned and there was a widespread fear that the foreign exchange would lose all stability on account of uneasy international financial situation.[1] In order to minimise the extent of fluctuations of the foreign exchanges, an Exchange Equalization Fund was established in 1932, con-

[1] See Chapter XVIII.

sisting of a capital sum of £150 million. This fund was entirely under the control of the Treasury, so that from 1932 onwards, Britain had a dual monetary authority, the Bank of England and the Treasury, and the very nature of things compelled them to work in close co-operation. In 1932, the Treasury might have been described as the junior partner; during the following twenty years the relative positions have been reversed.

The serious financial situation during the Second World War accelerated this movement towards government control. For the Conservatives this was merely an emergency measure designed to assist the war effort, but the Labour Party had relatively more radical views. So when the Labour Party was returned to power in 1945, one of their first acts was to nationalise the Bank of England in early 1946. The most significant part of the Act is that Treasury, in the public interest, may issue directions to the Bank, and the Bank, in turn, may issue directions to the commercial banks. But actual directions need not be given. The very fact that they can and will be given is sufficient to make the commercial banks fall into line with the wishes expressed by the Chancellor of the Exchequer (i.e. Finance Minister). There are many instances of this between 1946 and 1960.

CHAPTER XVIII

CURRENCY: RISE AND FALL OF GOLD STANDARD IN BRITAIN

GOLD STANDARD was never 'invented' to serve any conscious purpose. This is as true regarding domestic functions of gold standard as it is regarding the international functions of gold standard. What we call its domestic functions arose quite naturally out of the distrust with which paper money was regarded in the nineteenth century. If paper money were to be allowed alongside gold, the greatest care had to be taken to see that they were not issued in excessive quantities. The requirement of convertibility gave this assurance. Similarly, there was no stage in the historical development of international gold standard, as it existed before 1914, at which a conscious decision was made to aim at stability of the rate of exchange between any two countries. On the contrary, until the outbreak of the First World War, stability of the rate of exchange had been the normal state for more than a century. Of the known cases of instability every one was associated with exceptional circumstances—war, revolution or financial calamity. In normal time, international gold standard had nothing to do; only in exceptional circumstances it was called upon to re-establish exchange stability.[1]

A. GOLD STANDARD BEFORE THE FIRST WORLD WAR

Since 1816 Britain had been nominally, and since 1821, actually on the gold standard, its silver coins from then on being legal tender only for sums up to £2. Both its principal circulating coinage and the metallic reserves of the Bank of England, on which the whole credit structure was based, consisted of gold. But many other countries used either silver alone or both silver and gold as standard money in the first three quarters of the

[1] Crowther, *An Outline of Money*, pp. 376ff. For a preliminary idea about gold standard, it will be helpful to the beginners.

nineteenth century. This divergence of practice caused serious international financial difficulty first in 1873.[1]

Controversy Regarding Bi-metallic Standard

Before that the ratio between the values of gold and silver remained practically constant. But after that, the monetary demand for gold increased as several countries, led by Germany, adopted the gold standard, while the output of new gold from the world mines rose very slowly ; and for silver the conditions of both demand and supply changed in the opposite direction. Gold rose and silver fell in value and the relation of gold to silver currencies began to change continuously. In Britain this led to much public controversy about whether the gold standard should be replaced by a bi-metallic one. Those who were in favour of the change argued that (1) the rise in the value of gold was the main cause of continuous fall in commodity prices which in its turn was responsible for disruption of production ; (2) that the change in the relation of gold and silver currencies was hampering trade between gold standard and silver standard countries, and if Britain did not give a lead by monetizing silver all countries would, in course of time, adopt the gold standard and thereby aggravate the existing scarcity and high price of gold ; (3) and that India had its importing capacity restricted and its administrative difficulties increased by the necessity to make external payments in gold while its taxes and internal transactions were paid in money based on the less valuable silver.

Gold Standard as International Standard

But gold standard has worked satisfactorily in Britain for a long time and the Government had no wish to replace it. The Bank of England never paid much attention to the question of change, and a Royal Commission split evenly for and against the continuation of gold standard. In such circumstances, England continued with gold standard. When in 1897 Russia and Japan adhered to gold standard, it became practically a

[1] See Chakrabarti, Kundu and Patra, *Economic Development of India*, pp. 283-85.

world-wide currency system, only China among the larger countries still clinging to a silver standard.

Bank of England's Responsibility

For roughly two decades before the First World War gold was acting as the basis of what was practically a world-wide currency system. Nearly all countries declared the gold value of their currencies and used gold as the basis of their credit arrangements. They recognised the duty of regulating their currency and credit in such a way that over a period of years they could balance their international payments. But since most countries effected far more of their international transactions in sterling than in any other foreign currency, the condition and 'health' of sterling and of the London money market was the major influence in the maintenance of international trading and financial equilibrium on a basis of fixed exchange rates. Indeed, it is probably true to say that the market for sterling (including the market for sterling acceptances and discounts) counted for more than the international gold market in the working of the international gold standard.[1] *The maintenance and preservation of equality in the demand for sterling and the supply of it thus became the pre-condition of maintenance and preservation of international gold standard.* Since maintenance of equilibrium in the demand for sterling and the supply of it was the responsibility of the Bank of England, the effectiveness of the Bank's credit policies became the most important condition for the success of the international gold standard.

'Automatic' Adjustment

In the conditions of the world before 1914 the international gold standard worked remarkably well. Stability of exchange rates was maintained with so little conscious effort that it came to be regarded as natural. At that time, when actual gold coins was still the most important part of the money supply, the reaction of a gold movement upon the domestic credit position was almost automatic. For when gold was exported this auto-

[1] Ashworth, W., *op. cit.*, p. 175.

matically brought about a contraction of the money supply. The surplus reserves of the Bank of England were so small that the Bank was forced, for the sake of its own solvency, to take immediate notice of any considerable draft made upon those reserves. If prices were rising in Britain faster than in other countries, there would be a tendency for gold to be exported. But there also would be a tendency for gold to be demanded of the Bank of England in order to increase (*a*) the circulation of gold coins in the pockets of the public and (*b*) the cash kept by the commercial banks. Conversely, when prices were falling in England faster than elsewhere, gold would be pouring into the Bank of England, both from abroad and from the British public. In its own interest, therefore, the Bank *could not* allow any movement of gold to continue for more than a few weeks ; it was *forced* to obey the golden rule[1] in a way which, if not automatic, had all the appearance of automatism.

B. POST-FIRST WORLD WAR RESTORATION OF GOLD STANDARD

Suspension of Gold Standard

The First World War threw the whole system of international gold standard into the melting pot. The first major consequence was the substitution of an emergency paper currency for the gold sovereign. Convertibility was not legally suspended, but as both the melting of gold coin and export of gold were prohibited there was no purpose in applying for conversion of notes into gold ; convertibility was effectively suspended in fact, if not in law. Any person demanding gold had been open to prosecution for acting in a manner contrary to the public interest. In fact, very strong appeals were made by the Government to the public to surrender their gold.

The immediate reason for suspending conversion was to preserve the gold reserve intact to be used to pay for food, raw materials and other imports vitally necessary for the successful prosecution of the war. But even if the gold standard had not

[1] The golden rule of the gold standard is : expand currency and credit when gold is coming in ; contract when gold is going out.

been suspended for reasons of military or political strategy, purely economic considerations would have forced the suspension before long. The cost of the war was far greater than what could be raised by taxation and borrowing. A large part of the cost had to be raised by outright inflation—by the expansion of currency and credit. This inflationary rise in prices, which was essential to the conduct of the war (since it was the rise in prices that compelled the public to diminish its consumption and thus set free resources for the Government) could not have occurred if the gold standard had been maintained. In any case, the gold standard was doomed.

Restoration

After the war, and the boom and slump that followed it, the international gold standard was restored in nearly every country in the world. Many causes led to this restoration. The first was the natural wish to return to 'normality', which in currency arrangements meant the gold standard. The second impelling force was the appalling chaos produced in Europe by wild post-war inflation, which carried prices in Germany to one million times their pre-war level, and in other countries to levels only slightly less astronomical. "The misery and dislocation produced by this inflation made such a strong impression upon all who were brought into contact with it that the avoidance of any repetition of the experience seemed to be the first principle of monetary wisdom. The gold standard, whatever its other faults may be, does at least nip any such wild inflation in the bud."[1] This explains the unanimity of desire to return to the gold standard.

By 1918 the Government of Great Britain became uneasy over the financial situation, and set up a committee, under the Chairmanship of Lord Cunliffe, the Governor of the Bank of England, to consider the monetary problems and the best way to get back to 'normal' conditions. The *Cunliffe Committee on Currency and Foreign Exchange after the War* recommended that the gold standard should be restored as early as possible but gold coins should not circulate. This form of standard came to be known as the gold bullion standard.

[1] Crowther, *op. cit.*, pp. 308-9.

The Problem of Parity

The main difficulty was that to return to the gold standard at the pre-war mint price, which was what the Cunliffe Committee had recommended, meant giving a higher value to the pound than it intrinsically deserved. In other words, at the pre-war mint price, pound was over-valued relatively to the existing equilibrium rate. This was so because the British price level had rised further than the price level in America, Switzerland, Holland and the Scandinavian countries. The difficulties inherent in such over-valuation was quite clear but "in view of the importance to the prestige of the City of London, and to British financial interests, of restoring the historical parity", the Government decided that a short period of strain was not an excessive price to pay. In April, 1925 the British Government restored the convertibility of the pound sterling at the pre-war parity of $\$4{\cdot}86\frac{2}{3} = £1$. There were certain changes, however, compared with pre-war standard. The sovereign was not restored and the pound was not made convertible, but the Bank of England was compelled by law to sell bullion in units of 400 ounces of fine gold on demand to any person who offered the necessary price.

It was a grave miscalculation. In the first place, the British Government underestimated the extent to which the old parity overvalued the pound. Basing themselves on wholesale price indices, they thought that British prices were only 5 per cent higher than American as compared to the level of 1913. But, in fact, the divergence was more than 5 per cent indicated by wholesale prices, and the most generally accepted estimate is that it was an overvaluation of at least 10 per cent.[1]

The second miscalculation was to assume that the discrepancy between the level of British costs and prices and those of the United States could be easily removed—in particular, that credit contraction would reduce British costs of production. In the event it entirely failed to do so. Credit contraction and high interest rates led to prolonged depressions and unprecedented

[1] Calculations based on wholesale price indices tended to understate divergence between the actual rate and equilibrium rate because British wholesale price indices consisted largely of imported articles, whose prices themselves were influenced by the rate of exchange.

mass unemployment, but unemployment and low profits failed to bring down wages and costs. In spite of the depression and the great labour disputes of 1926, the pound remained overvalued throughout the whole period until the abandonment of the gold standard in 1931. The adjustment was never accomplished.

Britain's Unhappy Experiences

In an attempt to remove the discrepancy between the level of British costs and prices and those of the United States, Britain ushered in a period of deflation which led to prolonged depressions and mass unemployment. But even at this high sacrifice adjustment of British and American cost-price-structure could not be accomplished. Britain had to learn two other most important disadvantages of having an overvalued currency. *First*, the flexibility of the Bank of England in the matter of credit was largely destroyed. The Bank of England could never allow conditions of easy credit for fear of losing its gold reserves. Money rates had to be kept high in order to attract foreign funds to London and thus provide a demand for pounds in the foreign exchange market adequate to take the supply and protect the Bank of England's gold reserves. *Secondly*, the British export trades fell on evil days. While their costs of production were determined by the British price level, their selling prices were fixed by the world price level. Since the condition of overvaluation is that the former price level is higher than the latter, it follows that British exporters were in a poor position either to compete in the world markets or to make profits.[1]

C. FINAL COLLAPSE OF GOLD STANDARD

Causes of Breakdown

The process of restoring the gold standard, which began with the German stabilization in 1924 and the return of the pound

[1] The thing to be noted is that all other important countries like France, Germany, Italy, Hungary, etc. either fixed correct value corresponding to the degree of inflation or undervalued their currencies. France undervalued her currency (in declaring her new parity) so much that French industry benefited for several years from gently rising prices.

sterling in 1925, was virtually accomplished by 1928. The collapse, however, began with Great Britain ; Great Britain suspended it in September 1931, and by 1933 even the almighty dollar suspended gold convertibility. By 1936 when France succumbed, the international gold standard finally collapsed.

Before discussing the immediate causes of the collapse of the gold standard so far as Britain is concerned, it will be advisable for us to examine the problem from the point of view of the world as a whole. *The first contributory cause was that the monetary authorities of the world were no longer as exclusively devoted to the aims of the gold standard as they had been before the war.* Stability of exchange rates they wanted but they also wanted to pursue their independent economic aims. And the gold standard is ready to provide exchange stability only if other objectives are sacrificed at the altar of stability of exchange rates. This much no country was prepared to do.

Great Britain, for instance, demanded a policy of price stabilization. America also wanted to do so. Exclusive devotion to the rules of the 'gold game' was therefore impossible. *Secondly, emergence of extreme price rigidities in different economies made the task of readjustment extremely difficult, if not impossible.* This was particularly true when a downward readjustment of price and cost was necessary for maintaining exchange stability. The downward readjustment of British costs, for example, was rendered impossible by the stubborn refusal of the trade unions to countenance any reduction of wages. This rigidity of cost-price structure is incompatible with smooth working of the gold standard. Another example of such rigidity can be supplied from the British banking experiences. We have noted that before the First World War, the maintenance of equality in the demand for sterling and the supply of it was the pre-condition of maintenance and preservation of the international gold standard. This was successfully performed by the Bank of England through its extremely effective credit policies. An increase of 1 per cent in the Bank rate used to lead to the recall to London of the funds of British bankers placed abroad, an influx of foreign funds to London, and a diminution of the willingness of foreigners to borrow from the London discount market. All these factors tended to increase demand for sterling relatively

to supply. But in the post-war years all these factors became weaker. Moreover, international short-term funds (known as 'hot' money or 'bad' money) answering the call of speculation and fear rather than the normal inducements of interest began to overshadow the normal movements of funds responding to variations in interest rates. Thus credit policy lost its effectiveness and the working of gold standard mechanism became extremely difficult.

The *third* reason for the downfall of the gold standard was that *the Central Banks, torn by their divided loyalities, failed to observe the golden rule.* When gold was coming in they allowed it to pile up in their reserves and did not expand credit so as to raise prices. And when gold was being exported they let their reserves run down without initiating a restriction of credit and a fall of prices. British writers have been rather too ready to assume that the U.S. and France were only sinners in this respect. *But Great Britain was far from blameless, for gold exports were consistently disregarded, and the Bank of England in its anxiety to keep credit relaxed never contracted credit in order to produce a fall of prices.* Of course, it is not reasonable to suggest that Britain should have done the opposite. Throughout the whole of the period 1925 to 1929 Great Britain was comparatively depressed, and it was on the face of it unreasonable to ask that a further depression should be induced. The truth was that too much was being asked of the gold standard; the disequilibria were far greater than could be corrected by the mechanism of the gold standard.

Thus though the crisis of 1931 was sudden, its seeds had been sown several years before.

Britain Abandons the Gold Standard

In 1931, Britain abandoned the gold standard. The immediate cause was the financial breakdown in Central Europe. English bankers had advanced to Germany large sums of money; these loans were made with French and American short-term capital which had been deposited in London. The financial crisis led to a demand for the repayment of these deposits, and Britain, unable to obtain repayment from Germany, found her

CHAPTER XIX

FROM THE DEPRESSION OF THE SEVENTIES TO THE CRISIS OF 1929-31

A. GREAT DEPRESSION OF THE SEVENTIES AND EIGHTIES

'THE GREAT DEPRESSION' which started in 1873 and, except for slight recoveries in 1880 and 1888, continued into the middle of the '90's, has been regarded as forming a watershed between the two stages of (British) Capitalism. Before the '70's it had been vigorous and expansive; after the '70's it became hesitant and contractive. From the beginning of the 19th century until 1870, industrial production in Great Britain had increased at a very fast rate (an annual rate of more than 4 per cent); but after 1870 the rate became less than 2 per cent. The beginning of the economic and industrial decline of Great Britain can be easily perceived if we compare the rate of industrial growth of U.S.A. or Germany with that of U.K. after 1870. While the cumulative annual increase of manufacturing production from 1873 to 1913 was 4·8 per cent for the U.S.A., it was 1·8 per cent for the U.K.

Causes

So far as Britain was concerned, the Great Depression seemed to have been the result of several factors.

(1) A relative decline in foreign investment due to industrialisation of new countries was one of the proximate causes of the crisis. Before 1870, 'foreign investment provided an important safety-valve against any tendency of the process of accumulation to out-distance the possibilities of profitable employment at home'.[1] Apart from risky investment throughout the world, Great Britain extended series of loans to Egypt, to Russia, to Hungary, to Spain, to Peru, to Chile, to Brazil, etc. She also undertook construction of railways in a number of countries.

[1] Maurice Dobb, *op. cit.*, p. 305.

But after 1873, the bankruptcy of Spain, the non-payment of interest by Turkey and various other types of financial difficulties in other countries led to an abrupt paralysis of the market for foreign loans and investment.

(2) According to Dobb, the most important cause is to be found in the partial saturation of investment opportunities—a fall in the rate of profit due to the rapidity of capital accumulation.[1]

(3) Thirdly, the depression was also due to the failure of effective demand to keep pace with the expansion of production. This 'over-production' aspect has been emphasised by the 'Royal Commission on the Depression of Trade and Industry'. While the ouput was expanding at a fast rate, the rate of increase of population was slower ; consequently, domestic consumption fell behind production.

(4) Finally, gradual decline of exports brought about a glut in the market. In the first half of the 19th century the growth of British exports was astonishing ; the annual rate of growth averaged about 8 per cent. Between 1860 and 1873 the annual rate of growth was 6 per cent. Then came the turn of the tide, unexpected and alarming. Between 1873 and 1876 the value of the exports of British produce declined by 25 per cent. Exports to the U.S.A. were halved ; exports of iron and steel declined by 40 per cent in value. The British exports were affected permanently by the industrialisation of new countries. By 1876-80 the British share of the world exports had declined to 38 per cent and this tendency had persisted even after the Depression. (Even in 1911-13 when world trade as a whole was buoyant, the British share was only 27 per cent). Great Britain ceased to be the workshop of the world ; the production for export could no longer impart to her economy the vigour

[1] In Marxian Economics, a rise in investment may take two forms : (*i*) a more capital intensive method of production or (*ii*) a multiplication of plants and machines that already exist (this requires a larger labour supply). The first method will automatically involve a fall in the rate of profit (leading to what the modern economists describe as vanishing investment opportunities due to a fall in the marginal efficiency of capital). In the second method, the rate of profit will not automatically fall ; it will fall if there is a rise in money wages caused by a relative shortage of labour. According to Dobb, both factors were responsible for lowering the rate of profit in the '70's. There was a remarkable rise in capital intensity and there was roughly a 40 per cent rise in money wage between 1869 and 1874.

which had raised her industrial production so rapidly in the early 19th century. Henceforth, if her industrial production were to recover its earlier vigour, there would have to be much more reliance on the home market. But the necessary re-adjustment has never been fully achieved.

Effects

The effects of the Great Depression on the British economy were very interesting. (1) An important characteristic of the depression of the '70's was cut-throat price competition. After the depression businessmen and industrialists took various measures to restrict competition Price-agreements and amalgamation movement made much headway. Though the combination movement in England was slower and loose as compared with that of U.S.A.[1] and Germany, the point to be noted is that in the early 20th century competition had been restricted to such an extent that during the crisis of 1929-32, the manufacturers were able to maintain prices by keeping a part of the productive capacity idle.

(2) The concern with the dangers of unrestricted competition prompted the industrial and business interests in different countries to seek protected or privileged markets. The capitalist countries set out on the path of colonisation.[2] 'Mature capitalism' discovered a new economic value of colonies ; colonies could serve not only as a privileged sphere of foreign trade but also as a privileged sphere of foreign investment. The three Great Powers of Europe—Britain, France and Germany—'began to search for an escape (from the narrow profit-margins) in the insured foreign markets of positive imperialism.....'[3] In Africa, Great Britain occupied a few million square miles of territory ; in Asia she annexed Burma, Malay Peninsula and Baluchistan. Mr. Joseph Chamberlian gave expression to this new mood when he declared 'the Empire is Commerce'. In short, the period marked the beginning of Imperialism.

[1] For a comparative study of the American Combination Movement, *see* Chakrabarti, Kundu and Patra, *Economic Development of America*, Ch. XII, pp. 83-92.

[2] America was an exception ; she was able to do without colony, for she was pushing her own frontiers.

[3] W. W. Rostow, *British Economy of the 19th Century*, p. 89.

B. PERIOD BETWEEN 1896-1914

The period between 1896-1914 marked a new phase of prosperity caused mainly by the opportunities which imperialism offered to England. The rich harvest from the exports of goods and exports of capital to India considerably helped the recovery. ('The Indian summer caused memories of the Great Depression to fade out of mind'—*Dobb*). The boom in the bicycle industry in Birmingham initiated the recovery ; a revival of the ship-building industry and railway and electrical constructions helped the process. Then, foreign trade and foreign investment started pulling the economy upwards. Between 1896 and 1910, the value of foreign exports was almost doubled ; from £226 million in 1895, it became £282 million by 1900 and reached £430 million in 1910. The export of iron and steel registered phenomenal increase and export of machinery, especially textile machinery, was a close second. The recovery of the ship-buliding industry was also spectacular.

British foreign investment had begun to rise since 1904. The main stream of capital went to Canada and the U.S.A., and in smaller amounts to Argentina, Brazil, Chile, Mexico, Egypt, India, China, Japan and West and East Africa. Railways, docks public utilities, telegraphs and tramways, mining, plantation, bank and insurance were the favourite objects of investment. The foreign investment peak of the 19th century was left behind, when in 1906 the foreign investment stood at £104 million. The spectacular rise continued and in 1913 it stood at £225 million (i.e. roughly a hundred per cent rise in 7 years). On the eve of the First World War, British foreign investment was possibly greater than British home investment. And nearly one-half of this foreign investment was in the colonies !

But this prosperity was only a passing phase. From the historical point of view, these signs of prosperity were of superficial nature. 'There were elements in the situation in the first decade of the new century that were to make the outlook for British Capitalism very different from the halcyon days of the middle nineteenth century, and different even from the sunshine years of 1867-73 before the breaking of the storm'—(*Dobb*). We know that the economic growth of a country depends on two

types of stimuli to investment—extensive (e.g. growth of population, extension of market, etc.) and intensive (e.g. technological innovation). Both these factors were responsible for the feverish industrial and commercial activities in the first half of the 19th century. But gradually they were losing force. The population which increased at a fast rate in the 19th century became more or less stationary in the early 20th century. Even in the '70's the birth rate in England was as high as in India today (i.e. roughly 35 per 1000), but in the '80's and '90's it came down to 29 per 1000 and in 1914 it became 24 per 1000. Similarly, in the field of technology, there was a sign of relative stagnation. According to Prof. Clapham, the coal industry had been worse than stagnant in efficiency since before 1900 ; in cotton there was no innovation ; in the iron and steel industry Great Britain lagged behind the rest of the world in the technique of production. In short, the technological superiority of Great Britain became a thing of the past.

The third important pillar of British prosperity in the 19th century was favourable terms of trade. Because of her supremacy in the production of industrial goods she could purchase foodstuffs and raw materials at very advantageous terms. The cheapness of food and raw-materials, in its turn, lowered the level of industrial cost, increased profit-margins and gave her a competitive advantage over other industrialised countries. But in the first and second decades of the 20th century, the terms of trade began to move against Great Britain. America and Germany seriously challenged British supremacy in manufacturing industries ; and as more and more countries passed from primary production to manufacturing industry and to capital goods industry, the terms of trade turned in the opposite direction. The rise in the price of raw materials and foodstuffs pushed upwards the industrial cost of production and thus Great Britain was deprived of one of the sources from which her early prosperity was derived.

C. WAR-TIME DEVELOPMENT IN BRITISH ECONOMY (1914-18)

Finance

The First World War led to a great financial dislocation. Before the war the rates of taxation were quite light ; in 1913-14

the government collected by way of central and local taxation only 11% of the total national income. But during the war the necessary finance was raised by the imposition of heavy direct taxes and by raising loans. Income taxes were raised and the government began to take away one-half of large incomes and something like $\frac{1}{4}$th of moderate incomes in the way of income taxation. The indirect taxes were also raised so that the yield of indirect taxes accounted for $\frac{1}{4}$th of the total tax-revenue. The greater reliance on direct taxes, as compared with that in other countries, signifies an element of progressiveness in the British tax-structure.

In spite of vigorous attempt of the government to meet war expenditure out of tax-revenue, the latter covered only 17% of the total war expenditure and the government had to borrow heavily. The size of the public debt (internal and external combined) increased ten-fold during this period. Of the external debt, the largest share came from America.

But even this borrowing was not enough for meeting the expenses of the costly war and the government had to go in for inflationary war-finance. The government virtually left the Gold Standard and increased manifold the issue of paper-money. There was a huge increase in the amounts of bank deposits; prices rose, wages increased and the economy was caught in a spiral of inflation. But the rise in wage was less than that in price and consequently, in Great Britain the inflation was mild if compared with that in other European countries. (As compared with 1913, in 1920 prices were 3 times higher in Great Britain, 5 times in France and 20 times in Germany.)

Industry

The war led to direct government intervention in the economic life of Great Britain. Though the measures taken were temporary emergency measures and were removed immediately after the war, the government intervention was of historical importance, as it indicated a major shift away from *laissez-faire* policy. The Defence of the Realm Act was passed in 1914 which invested the government with necessary powers to intervene in the industrial sector of the economy. Under the Act, the govern-

ment undertook the tasks of centralised purchase and price-control ; it took the charge of buying raw materials and allocating them to manufacturers. By the middle of the war there was a serious crisis in the coal industry ; production fell by 30 million tons and the industry was threatened by a gigantic strike, and the government was almost forced to assume direct control of the industry.

The restriction on imports and the the necessity of rationalisation fostered the growth of combination movement in industries. In iron industry five large associations began to control the industry. In soap industry 70 per cent of the output came to be controlled by a single association. The combination movement in the field of banking was further stimulated and by the end of the war, the Big-Five came to control and manage more than 85 per cent of the total deposits of all joint-stock banks. (The five biggest joint-stock banks in England are popularly known as the Big-Five.)

Agriculture

At that time Britain was producing less than 2/5ths of her total requirement of food ; and consequently she had to depend on foreign imports for her food supply. During the war, due to the shortage of shipping-space, import of foodstuff was seriously restricted leading to a rise in prices. At first, the government did not take any drastic measure ; it appealed to public to produce more. This exhortation, however, served no purpose, and the area under cultivation fell below the pre-war level as more and more labourers shifted from agriculture to army and to other better remunerative jobs. By the beginning of 1917, the situation became precarious due to the intensification of German submarine campaign, and the government was compelled to take drastic measures. In December, 1916, a very important Act was passed leading to the setting up of a Food Controller who was vested with a long range of quite exceptional powers to regulate production, storage, transportation and consumption of food articles. A minimum agricultural wage was fixed to attract labourers to agriculture ; price was fixed for wheat and oat with a view to increasing acreage under cultivation. As a result of

all these changes, both area under cultivation and output of wheat increased considerably.

During the period, there was considerable change in the distribution of ownership of land. The extremely large estates dwindled and in their place moderate holdings (50-300 acres) grew in number.[1]

D. THE INTER-WAR PERIOD (1919-1939)

The Inter-War period may be conveniently classified under the following heads :

(*a*) *1919-1922* : The period of postwar readjustment. Though it cannot be said that all the disturbances unleased by the war had been settled by 1923, there can be no doubt about it that a certain degree of basic readjustment had been achieved by that time. A large number of commodities was gradually decontrolled and rationing was abolished.

(*b*) *1923-1929* : A period of comparative stability and prosperity. It was a period of prosperity for all capitalist countries. There was a general increase in production in almost all countries but the increase in Great Britain was smaller in comparison with that in America and Germany. [While the average increase in the world as a whole (minus the U.S.S.R.) was 26%, in Great Britain it was 16%.] Again, this dubious prosperity was accompanied by an increasingly larger volume of unemployment in Great Britain. While only 2% of the workers were unemployed in America, 10% of the insured workers in U.K. were unemployed throughout the period of prosperity. The most important cause of the widespread unemployment was a fall in British foreign investment, and inability to step up exports. Since the Great Depression of the '70's industrial production in Great Britain had not been able to adjust itself to the changing pattern of the world economy. The U.S.A. and Germany seriously challenged British supremacy in the production

[1] For details see Chapter III on British Agriculture.

of steel and other industrial manufactures. She lost her textile market to Japan and India. To cope with these difficulties the most pressing requirements of the British economy were :

(1) reduction of the relative importance of export industries and corresponding increase in that of home industries ;
(2) diversification of export industries and their modernisation ;
(3) removal of difficulties associated with currency.

The industrial readjustment could not be achieved mainly because of inadequate mobility of labour—both territorial and vocational. In the field of currency, in spite of post-war rising prices, Britain insisted on the pre-war parity which meant an over-valuation of the pound-sterling. In U.S.A. prices had begun to fall in spite of a boom condition mainly because of a reduction in costs of production. Great Britain also tried to reduce costs by following a deflationary policy. She was already suffering from severe unemployment and what she actually required was an expansionist policy and not a deflationary policy. As a result, she could not adequately tackle the problem of unemployment. Due to the overvaluation of the pound-sterling, difficulties of balance of payment became more serious, and there was heavy pressure on the gold reserves of the Bank of England which had to try to correct the situation by attracting foreign short-term funds. These foreign short-term funds when withdrawn from the London Money Market in 1930, ushered in the crisis.

(*c*) *1929-1932* : The period of Second Great Depression.
(*d*) *1932-1938* : A period of recovery. From 1939 begins the period of the Second World War.

CHAPTER XX

THE GREAT DEPRESSION OF 1929-32

A. CAUSES AND EXTENT OF CRISIS

THE DEPRESSION OF 1929 visited almost all capitalist countries. In its intensity and range it was almost unparallelled. The centre of the depression was U.S.A., where it was caused mainly by her internal circumstances. Growing rigidities of the economic structure, the huge expansion of credit due to the steady inflow of gold, under-consumption and gradual exhaustion of investment opportunities precipitated the crisis which made its dramatic appearance with the collapse of the stock exchange market in 1929.[1] As the American economy slided down-hill, this had disastrous consequences for other countries. Germany was most hard hit and was involved in a depression due to the withdrawal of huge American loans. As the depression spread to other countries, the volume of import in all these countries was drastically curtailed by adopting various restrictive measures. The British economy, which was traditionally export-oriented, faced a dangerous situation. The export continued to decline but imports (mainly foodstuffs and industrial raw materials) could not be curtailed ; so in spite of an improvement in her terms of trade (due to a sharp fall in the prices of primary products) she was faced with a very critical balance of payment problem.

Main Cause : *Gradual Decadence of British Economy*

A critical study of the British economy since the Great Depression of the '70's to '90's will convince a student of English economic history that the crisis of the '30's was probably an inevitable stage in the gradual decay of her economy. She had lost her industrial leadership and her export markets ; she had

[1] For details of the Great Depression in America *see* Chakrabarti, Kundu and Patra, *Economic Development of America*, Ch. XX and Ch. XXI.

become 'less adaptable, less progressive, less dynamic and less efficient'—(*Birnie*).[1] The world-wide depression only intensified her difficulties ; it carried further certain trends that had existed in U.K. even before the '20's. These difficulties were the outcome of certain long-term changes in the position of Great Britain in the world economy : (1) the rise of powerful industrial competitors like France, Germany and the U.S.A. which since before the end of the 19th century had begun to challenge her predominance in the world export market ; (2) the gradual exhaustion of investment opportunities in new territories and in new colonies ; (3) growth of industries behind tariff walls in other continents ; (4) the rigid structure of the major export industries like coal, cotton, iron and steel. According to Prof Lewis, the British exports would have been much larger had the industries been a little more flexible. With the industrialisation of new countries, there was a heavy demand for capital goods in those countries. But the British industries could not undertake necessary structural re-adjustment with the result that while there was a gradual decline in the export of traditional industries like coal, iron and steel and cotton, there was no corresponding rise in the export of other industries like machinery, aircrafts, chemical and electrical equipments.

Decline of Exports

Now, all the factors enumerated above had led to the relative stagnation of the British export trade long before the Great Depression. The spirit of economic nationalism of the inter-war period brought about a further decline in international trade and hampered the British exports. Britain tried for a while to maintain her position by capturing an abnormal share of world shipping, insurance and banking services. But as it is natural, this could not continue for long time. According to Lewis, another development in the twenties accentuated the decline of British exports. Due to remarkable increase in agricultural production throughout the world, there was a tendency for agricultural prices to fall relatively to those of manufactured goods. This led to a decline in the incomes of the primary

[1] Birnie, *An Economic History of Europe, 1760-1939.*

producing countries who were Britain's best customers of manufactured goods. They, in turn, were buying lesser quantities of manufactured goods from Britain.

Return to Gold Standard

The crisis was precipitated by the restoration of gold standard in Britain in 1925 at the pre-war parity level.[1] This was a case of clear over-valuation of the pound which imposed an additional handicap on exports and aggravated the balance of payment difficulties. Credit contraction and high interest rates led to prolonged depression and unemployment, but unemployment and low profits failed to bring down wages and costs. Prof. Lewis believes that had there been a 20 per cent devaluation of the pound sterling between 1925 and 1929, this would have definitely improved Britain's export position.

In short, gradual decline of the British economy since the seventies of the nineteenth century coupled with the peculiar economic instabilities of the post First World War period prepared the ground for the severe depression in Great Britain in the late twenties. As the American economy slided down-hill in 1929 this had disastrous consequences for Britain and other countries. The international movement of 'hot money' further complicated the situation and ushered in the slump.

In 1929 Great Britain had a surplus balance of £100 million on current account. In course of a couple of years the surplus turned into a deficit of more than £100 m. on current account. The nervousness that was generated by this catastrophic change in the balance of payment position was heightened by the report of the Unemployment Insurance Commission that one worker in every eight insured workers of Great Britain was unemployed. Then came the May Committee Report which anticipated a huge budget deficit and regarded it as a sign of heading towards bankruptcy. The confidence in the pound-sterling was completely destroyed and foreigners made a mad rush for withdrawal of short-term capital from England. The withdrawal of this huge fund meant a heavy drainage of gold, and England found it increasingly difficult to maintain the Gold Standard. The

[1] See Chapter XVIII.

volume of production and employment continued to decline and the country was thrown into the grip of the depression.

But it must be remembered that the depression in U.K. was not as severe as that in U.S.A. While in U.K. the depression only intensified some of the difficulties already present, in America it was the culmination of the process of a vigorous phase of prosperity in the '20's. As the prosperity was vigorous in U.S.A., the reverse process was similarly very severe. Another important reason for the relatively mild form of depression in U.K. lay in the fact that as compared with America, Britain had a developed social security system. While in U.K. there was a limit below which consumer's income and consumption could not decline, in America there was no such rock-bottom.

B. REVIVAL OF THE ECONOMY

Factors responsible for economic revival can be divided into three groups: (*a*) Trade and tariff measures; (*b*) internal economic policy; (*c*) accidental and favourable circumstances. Let us begin with trade measures.

Abandonment of Gold Standard and Devaluation

The turning point, as far as Great Britain was concerned, came with the abandonment of the Gold Standard in September 1931, and the devaluation of the pound-sterling by 20 per cent. A further depreciation of 10 per cent was effected before the end of the year. This gave an immediate relief to British exports suffering from over-valuation of currency for a long time. For at least two years after 1931, British exports enjoyed definite competitive advantage; this also furthered the tendency of British terms of trade to improve, which had begun since 1929 because of a severe fall in the price of primary products. The only other alternative method of correcting such a mal-adjustment in the balance of payment, without abandoning Gold Standard, was deflation—a reduction of prices, costs and incomes which in turn would reduce imports and stimulate exports so as to restore the balance. Great Britain had much sad experience of this painful policy in the '20's. So she preferred currency depreciation to deflation.

There can be little doubt that the abandonment of Gold Standard and the depreciation of the pound constituted the first important step towards the recovery of the British economy. But the benefit was short-lived. Soon after England had left the Gold Standard, other countries followed her example. Between September 1931 and August 1932, as many as twelve countries left the Gold Standard. America abandoned the Gold Standard in 1933 and she was closely followed by Japan, Sweden, Norway, Denmark and other countries. A fierce competitive exchange depreciation followed resulting in the loss of competitive advantage of British exports and a considerable decline in the volume of international trade.

Tariff Policy

The next step in the programme of recovery was the abandonment of free trade in favour of general tariff and Imperial Preference. During the post-war boom the protectionist ideas had made little headway. But when unemployment began to rise because of the continuous fall in exports and when the domestic industries began to face fierce foreign competition in the home market, this sugar-coated version of "beggar-my-neighbour palicy" came to be looked upon as a cure for Britain's ills. Mr. Chamberlain put forward seven arguments in its favour : its purpose was to correct the balance of payment difficulties, to obtain fresh revenue, to ensure against a rise in the cost of living, to render production and distribution efficient, to facilitate negotiation with foreign countries over tariffs and to strengthen imperial bond. By the Import Duties Act of February 1932, a general 10 per cent *ad valorem* duty was imposed on all imports except raw materials and foodstuffs. The exemption was meant to check the rise in the price of manufactures. In practice, manufactured imports were subject to 20 per cent duties. At the end of 1932, an Imperial Economic Conference was held at Ottawa where it was agreed that the colonies would give preferential treatment to British exports ; in return Great Britain would give certain tariff concessions to colonial exports. The main motive behind the Imperial Preference was probably political—the desire to strengthen the political unity of the empire. But it

must not be overlooked that the agreement deprived the colonial countries of the protection for their infant industries. Lastly, the government also used the tariff and import restrictions to obtain concessions in foreign market, and concluded a number of bi-lateral trade agreements with a number of countries like Russia, Poland and Argentina.

According to W.A. Lewis, British trade policy in the '30's did not help recovery to any appreciable extent.[1] This was because of the fact that it brought about a reduction in the total volume of international trade. *First*, currency depreciation brought temporary gains which were followed by permanent loss in the shape of destruction of international monetary system ; it threw excessive strain on those countries which remained on the Gold Standard, and eventually encouraged them to follow the British example. *Secondly*, British bi-lateralism had deflationary consequences for international trade. It destroyed trade links between some countries and disrupted international trade. Of course, Great Britain was not the only country to adpot bi-lateralism ; but since she started it she must bear the blame for setting the fashion. *Thirdly*, the policy of protection deflected competition from the protected market into other markets and the gain in the protected markets was not more than the loss in the unprotected market. This is brought out by the fact that Britain's share of the world trade continued to decline, being lower in 1937 than it had been in 1929.

Internal Economic Policy for Recovery

Soon it was realised that Britain's economic ills could not be cured without devoting more attention to the improvement of internal conditions. The internal policy measures may be classified under th following heads :

(1) monetary policy ;
(2) investment in housing ;
(3) assistance to export industries ;
(4) control of foreign loans and foreign investments ;
(5) policy in relation to agriculture ;

[1] Lewis, W. A., *Economic Survey, 1919-39*, pp. 84-85.

Monetary Policy: In the monetary front a cheap-money policy was adopted to stimulate production and employment. War loans constituting ⅓rd of the public debt in U.K. was converted in 1932 from 5 per cent basis to 3½ per cent basis. This conversion was made possible by the fact that there was no possible investment outlets at that time. It lowered the rate of interest of long-term bonds and stimulated investment. It indirectly stimulated investment by reducing debt-charges of the treasury and enabling the government to lower taxes. *Secondly*, the abandonment of the Gold Standard checked the outflow of gold and enabled the Bank of England to adopt an expansionist policy. Creation of additional bank money reduced rates of interest and helped the revival. *Thirdly*, by imposing restrictions on foreign lending, the rate of interest was lowered further.

Investment in Housing: Cheap supply of capital was not enough in initiating a process of recovery. The leading factor in the recovery was investment in housing during the '30's. According to Lewis, the building boom cannot be adequately explained in terms of the fall in interest rates. The boom was due sometimes in 1920's and was delayed by the rent-control measures which kept rents below costs. After the fall in prices this factor ceased to operate, and the boom would probably have come about even if interest rates had not fallen. Any way, the building boom had a tonic effect on business; benefiting from increased purchasing power generated by investment in building, invesment and employment expanded in many fields. An expert estimate attributed ⅓rd of the increase in employment in Britain to the direct effects of building investment.

Assistance to Export Industries and Monopolistic Arrangements: A number of important export industries were granted subsidies and loans that they might compete in foreign markets. The second main line of policy was to keep up the rate of profit of some export industries by lending support to monopolistic arrangements. Coal, cotton, iron and steel and ship-building industries received help of this nature.

Foreign Lending and Investment Policy: Before the war Great Britain had been by far the leading international creditor country. Almost the whole of annual surplus of balance of

payments on current account had been regularly lent and invested overseas. But the situation had now to be changed. The embargo on foreign issues was designed to facilitate internal 'cheap money' policy and prevent pressure on balance of payment.

Agricultural Policy : The policy of the Imperial Preference created a difficulty for agriculture. The cheap agricultural products imported from the Dominions reduced price to unremunerative levels and the British farmers demanded protection. In 1933 an import quota scheme was designed to provide home producers with a practically guaranteed market. Various other measures were taken to improve the efficiency of production, marketing and distribution of agricultural products. The success of the policy was, on the whole, impressive. Output and prices rose and the decline in agricultural employment was arrested.

Special Favourable Circumstances Aiding Recovery

Some special circumstances also helped British recovery in the '30's. Firstly, the depression in U.K. was of a peculiar nature : it only intensified some of the difficulties already present in the economy even before the twenties. Unlike in America, it was not the culmination of the process of a vigorous phase of prosperity in the twenties. The depression was, therefore, mild in nature. Secondly, as compared with America, Britain had a developed social security system. Therefore, while in America there was no rock-bottom level of consumption, in U.K. there was a limit below which consumer's income and consumption could not decline. Thirdly, a favourable turn in the terms of trade *vis-a-vis* the agricultural commodities producing countries also helped British recovery. Lastly, another fortuitous circumstance that considerably helped the British recovery was the accumulated investment opportunities created during the earlier decades but not properly exploited before the '30's. For example, the building boom that took place in Great Britain in the 1920's could not take its complete course mainly due to exceptional monetary stringencies of the time.[1] In the '30's,

[1] e g. the Bank Rate was raised to 7 per cent in April 1920.

therefore, the British economy experienced once again the impact of a vigorous building boom.

A Critical Estimate of the Policy for Recovery

A student of economic history cannot fail to observe that Lord Keynes' own country did not adopt method of deficit finance to cure depression. Of course, Keynes' epoch-making *General Theory* was yet to come out but the main policy prescriptions were very intelligently anticipated in many countries. Sweden, specially, and America, to some extent, fought the Great Depression with the help of a large public spending programme. In U.S.A, however, greater emphasis was placed on relief expenditure as against direct public investment; in Sweden, on the other hand, there was more emphasis on direct public investment. Sweden was less conservative because it was at that time under a semi-socialist Government. But turning to Great Britain we find financial orthodoxy personified. The Great Depression did not lead to any significant change in the budgetary policy.

Nature of Recovery

The recovery from 1932 to 1937 was truly remarkable in the sense that industrial production was raised by 50 per cent and industrial profit by 10 per cent; unemployment showed a decline but did not vanish altogether. The rate of improvement of output and employment was not same in all industries. Coal, cotton textile, and ship-building—the most important export-industries—did not share the increase. On the other hand, motor and electrical industries, transport, housing and some service-industries registered more than proportionate increase. Thus, there was not only a quantitative change in the volume of output and employment but also a qualitative change in the pattern of industries. There was a re-allocation of labour and resources—a shift from export to some new industries. The decline in the relative importance of the export industries is clearly brought out by the fact that while in 1914 the export industries accounted for $\frac{1}{3}$rd of total industrial production, in 1930 it accounted for 22 per cent and in 1938 for 15

per cent only. And one must not overlook the fact that this re-adjustment was long over due and that it did not go to the desirable extent.

We have already noted that the most disquieting feature of the depression was an exceptionally large volume of unemployment. Even in the so-called period of prosperity of 1923-29 there was unemployment; the problem assumed alarming proportion in 1931 when the number of registered unemployed persons exceeded 2·5 million. And the most distressing feature of this unemployment problem was that it was localised in some special areas known as the 'distressed areas'. Lancashire was one of such areas where industries had permanently declined. The problem of such areas could be solved either by the transfer of unemployed persons to other areas or by locational planning (i.e. by encouraging new industries in those areas or by reviving the old industries). But neither of the methods was employed in England to a desirable extent. The absence of adequate regional mobility of labour limited the success of the first method while the unwillingness of the government to intervene vigorously limited the effectiveness of locational planning. The Special Areas Act was passed in 1934 and Commissoners were appointed to look after these areas ; a special fund was set aside to give help to the unemployed ; manufacturers were encouraged to start industries in the 'depressed areas'. These half-hearted measures produced some improvement but the problem of the 'distressed areas' could not be completely solved.

In conclusion it must also be noted that the recovery was not complete inasmuch as there was large-scale unemployment throughout the '30's, and as early as 1937 another slump was apprehended. Only a war, and the preparation for it, did save the situation.

CHAPTER XXI

THE BRITISH economy from 1939 to 1945 can be studied from two different angles. The first examines how the economy provided the sinews of war. It dwells upon the methods by which military requirements were met and civilian requirements held in check, and lays bare the administrative processes which allocated scarce resources between competing uses. The second studies chiefly those developments which turned out to be significant for the subsequent economic development.

The war broke out in September, 1939 and ended in August, 1945. Due to faults in diplomacy and the belated attention given to the task of building up and maximizing the defensive strength of the country, for Britain it was life and death struggle. And the British economy, which was not in a happy state throughout the thirties, had to undergo heavy sacrifices to build up the necessary military strength of the country.

Production for war required the contraction of innumerable industries and the expansion of two in particular: agriculture and engineering.

A. ECONOMIC ASPECTS OF WAR EFFORTS

Agriculture

Just before the war nearly 70 per cent of all food consumed was imported; for some important foodstuffs like wheat and butter, the proportion was as high as 90 per cent. Many important industries like cotton and rubber were wholly dependent upon imported raw materials. But the possibility of importing food and raw materials from abroad was limited in war time by many factors. *First*, some of the overseas sources of supply fell into 'enemy' hands during the war. *Secondly*, shipping in many parts of the world, particularly in the North Sea and North Atlantic, was subject to submarine attacks. As a result, it became extremely

uneconomical and also physically impossible to bring so much from abroad as before. *Thirdly,* due to her inability to export, there was desperate shortage of foreign currencies with which to pay for the imports. Hence the urgent need in agriculture to produce at home more food grains and raw materials. In 1939 the government declared a subsidy of £2 per acre for ploughing up grassland. Grassland was ploughed up, park and golf-courses were turned into corn-fields. The process was further encouraged by generous price increases. Prices received by the farmers almost doubled. By the middle of 1941, the acreage under cultivation went up by 4 million.

Side by side with extension of area of cultivation attention was given to intensive cultivation. In all countries War Agricultural Committees were set up to supply machinery and fertilisers to the farmers. The Committee directed farmers as the crop to be grown and methods to be adopted. Scarcity of labour was overcome by the use of prisoners of war, the Women's Land Army and other voluntary workers. Increased use of fertilisers and extensive mechanization drove up yields per acre by as much as 10 to 15 per cent during the war ; and by the end of the war, the value of net agricultural output at constant prices was about 35 per cent higher than in 1939. This works out at roughly 6 per cent increase per year, not a mean achievement.

More extensive cultivation, of course, meant less pasture farming and, as a result, the meat producing livestock registered a sharp decline. To contract its effects on nation's health, adequate measures were taken to increase the supply of milk, butter and potatoes. The number of cattle was actually increased slightly during the war and production of potatoes almost doubled.

Engineering Industry

The engineering industry covering metal manufacture, motors, vehicles, aircraft, ship building, etc. was obviously the backbone of war production. In all departments it had to be converted and expanded.

Demand for armaments grew at tremendous pace and extreme difficulty was experienced in meeting these colossal demands.

For example, in August 1940, it was assumed that the number of armoured divisions was to be raised to ten ; early in 1941 this figure became twelve ; in the spring of the same year it became sixteen ; by the end of July, eighteen. Similarly, with aircraft. The 1939 plan was to produce 2,000 air-crafts per month ; in September 1940 the Air Council was wanting to raise production to 3,000 per month.

Now, in meeting these colossal demands, the most difficult problem was the technical one of producing up-to-date designs of new weapons, tanks and aircraft. The Churchill tank, as for example. designed and developed in a hurry in 1940, turned out to be most unreliable, and two years had to be spent on its further development before it became a sound weapon of war. Similarly, the Navy spent years working on a radar set for aircraft which ultimately had to be abandoned as useless.

Another extremely difficult problem was the recurrent shortages of raw materials and semi-manufactured goods. With the entry of Japan into the war, serious shortages developed in the supply of basic raw materials like light alloys, rubber, tin, sisal and tungsten and the supply of semi-manufactured goods—rolled products, castings, gauges, etc. As regards machine tools, the U.S. came to the rescue of the U.K. In 1940 and 1941 the U.S. was supplying to the U.K. four times the number of machine tools supplied in 1939.

Employment

The switch from peace to war production at the beginning of the war facilitated by the immense reserve of the unemployed. Their absorption into industry was a gradual process, and there was still one million unemployed in April, 1940. The steady growth of war production, however, soon resulted into a over-all shortage of skilled labour. The first claim on the labour market was obviously the armed forces : at the end of the war in 1945, there were over 5 million men and women in the services. In other words, more than one-quarter of the whole available labour was in the war services. The next problem was how to allocate the remainder to the best advantage. Certain vital occupations like mining and agriculture were 'reserved' to prevent the drain of

essential skilled labour from these industries. The labour force in agriculture rose from 0·71 million in 1939 to 0·89 million in 1945. The labour force in engineering and in chemicals rose from 3·1 million to more than 5 million.

Now, when armed forces gradually increased and at the end, accounted for more than one-quarter of the whole available labour of the country, how was it possible to find these extra people in agriculture and engineering? The fundamental principles involved were two: the contraction of everything else; and the conscription of women. In allocating scarce man-power between the Services, industry directly working for the Services, and everything else, it was everything else which was invariably sacrificed. Some manufacturing goods ceased to be made altogether; some other, e.g. civilian clothing were reduced to half the pre-war level. And to increase man-power, much wider use was made of women's labour, even to the extent of replacing men in non-combatant branches of the Services. In agriculture, scarcity of labour was sought to be overcome by the use of prisoners of war, the Women's Land Army and other voluntary workers.

Standard of Living

Standards had to be reduced to a long way. To ensure equitable distribution of essential food items and civilian clothing, a strict system of rationing had to be introduced, Points rationing for food and clothing, whereby each individual could make up his total ration as he wished (out of a limited choice), was introduced in 1940 and 1941. Some goods ceased to be made altogether; furniture became rare, standardized and vulgarized; pots and fans and perambulators completely disappeared. The civilian petrol ration was stopped in 1942.

But one point should not be overlooked. The fact that there was widespread unemployment in Great Britain just before the war enabled her to increase her war productions without sacrificing civilian production to an extent which was unavoidable in countries like the Soviet Union which enjoyed full employment before the war. And *secondly*, it was not a total war for Britain in the sense in which it was for the Soviet Union. So the sacrifice,

measured in terms of deterioration of standard of living during the war, was not so heavy for the English people as it was for the Russians. In fact, England could preserve 'minimum standards', so that Churchill could declare that 'Great Britain was a modern community at war and not Hottentots or Esquimaux".

System of Controls

The devices by which the government of the United Kingdom secured this far-reaching re-orientation of the economy are those of 'central planning'—a thing not at all popular in a 'free enterprise economy'. As soon as the war was declared a large number of new Ministries appeared—Home Security, Economic Welfare, Information, Shipping, Food, Aircraft Production. All these Ministries rapidly acquired wide powers ; for example, by 1940, the Ministry of Shipping almost completed requisition of ocean-going shipping ; the Board of Trade fully controlled most raw materials, as well as iron and steel and machinery, which would be obtained only from the Board of Trade. Equally effective controls over civilian consumption were numerous. Points rationing for food and clothing whereby each individual could make up his total ration as he wished, was introduced in 1940. But the most important item of control lay, not in these things, but in *man-power budgeting.* In may, 1940, the Ministry of Labour acquired extraordinary powers. It might direct any person in the United Kingdom to perform any service required in any place. At the end of 1941, when man-power shortage became acute, industrial conscription—compulsory transfers—became common and the government took another unprecedented step—the conscription of women between 20 and 30 years of age. In October, 1942, the age limits were altered to 18 and 45½. And then, in 1943 resort had to be made to the 'grand mothers'—women up to fifty.

From the start the government was alive to the dangers of rising prices. Prices did begin to rise as a result of rising commodity prices and a rise in freights. Pressure for wage increases promptly followed—the coal miners forced an increase in wages as early as October, 1939. Naturally, other wages followed suit

and the government began to talk about the need for sacrifices and the dangers of inflation. But the Trade Union Congress did not agree to the proposal of freezing wages in the face of rising prices. At this critical juncture the government took a wise decision and began to subsidize a wide range of food-stuffs. Thus, while the prices received by farmers almost doubled (and thus acted as an incentive to grow more food) during the war, food prices in the shops rose only by 25 per cent over the same period. This policy did slow down the rise in the cost of living and rising wages overtook the cost of living in 1942. In fact it became the deliberate policy of the government *to use higher pay as an incentive to harder work.*

Financing the War

Before the outbreak of war, government expenditure for all purposes absorbed 17 per cent of the national income but, by 1943, it went up to 63 per cent. In absolute terms, it rose from £920 million in 1937-38 to £6,200 million (approx.) in 1944-45. About half of this expenditure was met by taxation which was stepped up sharply : income-tax was increased, and new taxes were imposed. An Excess Profits Tax of 60 per cent appeared in 1939; in 1940 it became 100 per cent. Another new tax—the purchase tax—was introduced in 1940.[1] The remainder was met by borrowing, both at home and abroad. Industrial investment was strictly controlled and limited in such a way that the industrialists had no other way but to lend their unspent money to the banks, which in their turn, lent every available penny to the government. The National Saving Movement was launched to encourage private saving.

Most important of all, huge aids came from America from March 1941. Lend-lease—the loan without charge, for the duration of the war, provided an immense quantity of goods, both military and civil. It accounted for a quarter of the armaments received by British and Empire forces. British industry was kept going with large amounts of American steel. Huge amounts of food came in all lend-lease shipments. In all, the U.S.A. supplied lend-lease goods to the value of nearly £7,000 million.

[1] In the 1914-18 War, less than one-third of the cost of the war was paid for out of taxation.

A further £4,000 million in cash was borrowed from other foreign and commonwealth countries

B. IMMEDIATE EFFECTS OF THE WAR

The war left lasting marks, and formed in many imporant respects a major turning point in the economic history of Great Britain. It involved dislocation of the economy on a scale hardly thought possible before the war. Much of this dislocation was, of course, temporary and could be put right in a few years after the war. Thus the end of the war removed impediments to overseas trade, renewed flows of imports of foodstuffs and permitted the restoration of a more normal, and economic, balance of agriculture. As the years wore on, the manifest austerities of life became less severe and pre-war standards of living were regained and surpassed. But there were other aspects of dislocation of the British economy which could be better described by the term *structural maladjustment.* It is a mistake to suppose that these distortions could be corrected by credit squeezes or other devices (like deflation or reflation or devaluation, etc.) for dealing with more transitory phenomena.

Liquidation of Foreign Assets and Balance of Payments Problem

Much the largest setback for the United Kingdom resulting from the war was in the financial losses overseas, whether by the destruction or sale of capital assets or by the incurring of liabilities. Much of that remained of the country's foreign investment after the First World War was sold during the war to purchase imports and to meet the needs of armies. She emerged from the war having sold over £1,100 million of capital assets overseas, reduced her gold and dollar reserves by £150 million and increased her external debt by almost £3,000 million.[1] Before the war, her external balance on current account depended to a large extent on the receipt of payments for what are known as 'invisible' items notably interest and dividends on overseas investments. Now, the loss of interest payment and dividends on these invest-

[1] Youngson, *The British Economy, 1920-1957*, p. 148.

ments, and the increase in external debts greatly reduced her 'invisible' receipts and created a chronic balance of payments problem—specially the dollar shortage.

Damage of the Domestic Economy and the Consequent Slow Growth Rate in the Post-war Period

During the war, the capital equipment of the country, except as required specifically for the war effort, went into disrepair, and fresh capital formation was non-existent.[1] This made the post-war recovery very difficult. The continuing balance of payments difficulties placed severe limitations on the imports of essential raw materials and further aggravated the situation. As a result, in spite of huge American help, the annual growth rate was only 3 per cent over the ten-year period, 1948-1957. This presents a very striking contrast with the British case in the post-First World War period on the American case in the post-Second World War period.

Inflation

The pent-up wartime demand drove prices up when the wartime controls disappeared, but production failed to register substantial advances. In the resulting inflation, prices in general rose to about three times their pre-war level. Wages were pressed upwards even faster than prices, thus accelerating the inflationary process.

Indeed, the post-war years were of repeated, if not of continual, crises—years of acute difficulty and the imminent danger of still greater difficulty, even of collapse.

Finally, the government became committed to a much more active economic and social policy than had been the practice before the war. So extensive was the intervention in every sphere during the war that it became almost impossible for the government to withdraw completely. Agricultural subsidies, for example, had reached such a height that their withdrawal would have completely upset the agricultural balance and led to

[1] The bomb damage in the United Kingdom was not as serious as that in some other countries.

an intolerable rise in the cost of living. The apprehension of a repetition of the unrest and misery of the inter-war period led to the acceptance of the basic principles of social insurance as enunciated by Sir William Beveridge. In a White Paper on *Employment Policy*, the government declared that the avoidance of unemployment was to be the first aim of its economic policy. Thus for a variety of reasons, the economic activities of the government became and remained crucial and pervasive, and economic policy became a grander theme for political debate than it had been in the past hundred years.[1]

[1] Roy Harrod, *The British Economy*, pp. 15-22.

CHAPTER XXII

THE POST-WAR PICTURE

A. ECONOMIC POLICY OF THE LABOUR GOVERNMENT (1945-1951)

THE SECOND WORLD WAR reduced Great Britain to a second-rate power—both economically and politically. In 1945, when the Labour Party was voted into power, Great Britain began an experiment with a 'Controlled Economy' or a 'Welfare State'. Though the Labour Party declared itself to be a socialist party, the strongest single group of its supporters—the leaders of the British trade unions—were shrewd, opportunistic and contemptuous of ideologies and social philosophies.[1] Because of this 'pragmatism' of the most important section of its followers, the Labour Party's programme was a 'highly unstable set of compromises'. Compelled by the hard economic and political realities of the day the Labour Party had to adopt a form of planning, but it was not the comprehensive planning of the socialist type.

The performance of the Labour Government may be reviewed under four main headings :

(1) a more egalitarian distribution of income ;
(2) long-range industrial and regional development and stabilisation of the economy at full employment level ;
(3) nationalisation of industries ;
(4) increase in productivity.

Let us examine the measures by which the government tried to achieve these ends.

Equalisation of Personal Income

The government sought to equalise income distribution by its tax and expenditure policy known as 'fair shares' programme.

[1] Oxenfeldt, *Economic Systems in Action.*

But very little progress in this direction could be made in the tax policy. Even before the Second World War the Income-tax structure was heavily progressive, and any more intensification in this direction was not possible. On the other hand, to combat strong inflationary pressures, indirect taxes on consumption had to be imposed. The net result was that in 1949, indirect taxes on consumption yielded revenues as great as the combined revenue from Income and Corporation taxes. Hence Findley Weaver had to co. clude in his *Taxation and Re-distribution of Income in U.K.* that taxes tended to accentuate rather than reduce the inequality of real income in Great Britain. But if we look at the expenditure side, it will be found that expenditure more than neutralised this effect. The pattern of expenditure was such that it gave poor people more than they paid in taxes. A comprehensive social security scheme was evolved in 1948, which had no parallel in the 'free' world. Social Insurance, free national health services, housing and food subsidies, grants to education, children allowance and the like went to a large extent towards correcting inequalities.

Planning

The economic planning was directed towards the stabilisation of the economy at nearly full employment level and towards long-range industrial and regional development.

The features of the British brand of planning are interesting. (1) As the Government believed in democratic Socialism, "It cannot employ the compulsions that totalitarian planning uses..." (*Bevan*)—so the method was one of persuasion and not of compulsion. (2) "The machinery of planning had its inception in the war years, and has evolved, planlessly into a curious mixture of old and new elements." (*Lewis, B.W.*). The Cabinet was the final authority for all plans. The Minister of Economic Affairs was a member of the Cabinet. Two committees were responsible to the minister. One of the committees, known as the Central Economic Planning Staff and composed of top civil servants, collected economic data and necessary informations. The second committee, the Economic Planning Board, was composed of labour, management and government representa-

tives ; it served purely in an advisory capacity. Thus, most of the planning was actually done by individual government departments.

To maintain relative full employment, the government used various measures including control over total expenditure *via* direct control over investment. It tried to control private investment by determining the industries in which private investment might take place and permitting some to issue securities but denying others the privilege. *Secondly*, it influenced private investment through its allocation of controlled basic materials among alternative applicants. Even if the government failed to control the volume of private investment, the social security measures for stabilising and increasing consumers' expenditure was a great help in striving for full employment.

The kind of economic planning undertaken by the Labour Government had been severely criticised by the majority of economists who saw in it "a wordy, wishful pretence—a cloak for planners too unimaginative and too timid really to plan".[1] The British type of planning might have prompted Schumpeter to state that "most of the 'planning' that has been actually done has nothing socialistic about it."

Nationalisation

The government put forward some formidable arguments in favour of nationalisation of certain industries. *Firstly*, it was argued that nationalisation would 'democratise' the power to control basic industries and hence the economy. In a democracy such power must belong to the people. *Secondly*, it would increase efficiency by permitting direct investment of public funds, by enlarging the scale of production and by improving organisation and labour-relations. *Thirdly*, it would be a road to full-employment. *Fourthly*, it would constitute a protection against private monopoly. And *lastly*, it would protect public domain against the sabotaging tactics of private industries.

But in practice, the government was not very enthusiastic about nationalisation. The nationalisation programme covered

[1] Lewis, B. W., *British Planning and Nationalization.*

merely 20 to 30 per cent of all industries. The 'public utility' industries which were nationalised included (1) the Bank of England, (2) coal, (3) steel, (4) gas, (5) electricity, (6) transport, (7) civil aviation, and (8) overseas communication. Even after nationalisation, the nationalised sector of the British economy remained a minority of the whole.

From a study of the working of the nationalised industries the conclusion is inevitable that the hopes expressed by the Labour Government were not borne out in practice. The compensation paid at the time of nationalisation was extremely high; the public corporations established to administer the industries had no workers' representative in the actual management; the administration was highly centralised and Parliamentary control was slack.[1]

Different criteria have been advanced to examine the success of nationalised industries. By these tests, the result of nationalisation has been "neither spectacularly good nor bad". For the most part, the total output and productivity in nationalised industries have risen. Labour disputes in nationalised industries, after a discouraging beginning, have fallen off. But some of the nationalised industries are still incurring financial losses.

Increase in Productivity

British industries were relatively inefficient (since the beginning of the 20th century) and the Labour Government took various measures to improve efficiency and productivity. Working Parties, consisting of (representatives of) employers and unions, and other independent specialists (e.g. engineers, economists, management experts, etc.) were set up in many industries to investigate various proposals for the improvement of organisation, production and distribution methods and processes, and to suggest measures to make industry more stable and more capable of meeting foreign competition. To overcome the technical backwardness of industries, a Department for

[1] Even this half-hearted nationalisation measures were opposed by the Conservative Party. The advent of a Conservative Government in 1951 was followed by some changes in the opposite direction. The nationalisation of the iron and steel industry was reversed, road haulage was restored to private enterprise.

Scientific and Industrial Research was established to subsidise industrial research. The output of this drive, however, was not very encouraging.[1]

An Assessment of Achievements

Can it be said that there was a 'social revolution' in those six years in which the labour Government was in power? The answer must be in the negative. There can be no doubt about it that in the sphere of social security the Labour Government took Great Britain a step forward in a bold and imaginative way. But it must also be stressed that this was in no way a new departure; rather it served to bring up to date a system which dated back to the Liberal Government of 1906 to 1914, and had since been much amplified. During the Second World War, it came to be recognised by all concerned that the time had come for a general overhaul of the whole complex of social security payments. Reforms along many lines would certainly have been undertaken by a Conservative Government, had it been returned to power in 1945; there was nothing specifically socialist about them.[2]

Another innovation of the Labour Government was the free health service, which, despite criticism of various particular points, has not been a mean achievement.

The most characteristic achievement of the Labour Government was the nationalisation of a considerable sector of industry in rather quick time. But here again there are qualifications. Some of these 'industries had become very snarled up, and it is likely that even a Conservative Government would have judged that there was no alternative to nationalisation.'[3] Harrod rightly pointed it out (to his American readers) that other nationalisations might also have been justified from the point of view of 'middle-of-the-road' politics (as distinguished from socialism), since the industries were largely monopolies or public utilities, with which there had already been much interference by the government.

[1] The measures taken by the Labour Government for maintaining and expanding the production of foodstuffs and dairy products were discussed in Ch. III. The achievement of the Government in the field of social insurance was discussed in Ch. XVI.

[2] Harrod, *op. cit.*, pp. 39-67. [3] *Ibid.*, p. 67.

In short, the Labour Government did almost nothing which was specifically socialistic, and as such, its performance, or lack of it, should never be confused with that of a truly socialist government.

B. PROGRESS OF INDUSTRY AND THE PROBLEM OF MONOPOLY

While the Labour Government was carrying on a somewhat restricted experiment in the nationlisation of industry, all the multifarious activities of the economy continued under private enterprise. The controls were progressively dismantled, and after 1951, when the Conservatives came back to power, almost all controls (except monetary and fiscal restraints) disappeared.

Industry

For six years during the war, there had been virtually no new investment in industries not concerned with war. Repair and maintenance of existing plants were neglected and worn out or obsolete machinery was not replaced. Accordingly, the primary task facing industry in the post-war period was modernization and re-equipment. Wartime restrictions on investment had ensured that plenty of capital would be available for this purpose after the war. Consumers' demand for goods had also been accumulating for years and now expected to be satisfied. Thus the time was ripe for an industrial expansion in a grand scale. The only real problem lay in the supply of labour and in the availability of raw materials. There was no longer a reserve army of unemployed labour, while the balance of payment difficulties put severe limitation on the import of raw materials.

The ten years after 1945 saw a moderately fast rate of industrial growth. The consumers' goods industries entered into a new phase of prosperity. Industries basic to all industrial growth—steel, fuel and power—also registered considerable progress. The armament industries, particularly aircraft, registered phenomenal growth. The greatest expansion, however, has been in relatively new industries—oil refining, motor car and

aircraft manufacturing. The success story *par excellence* of the post-war years is that of the car industry[1].

Motor Car : The industry made an enormous contribution to exports, car exports by 1955 being between four and five times what they had been in 1937. Britain now competed with Germany for the position of leading car exporter, with France, the United States and then Italy a long way behind.

Aircraft : Another industry which suddenly acquired a new importance was aircraft manufactures. The rearmament drive of fifties doubled the output of military aircraft, aero-engines and spares between 1951-52 and 1954-55. Military aircraft predominated in exports in the mid-fifties, but in the latter part of the decade, Britain captured a substantial portion of expanding export market for civil aircraft.

Chemical Industry : The chemical industry, including petro-chemicals and oil refining, was another prodigious performer.[2] Little oil-refining was done in Britain before 1945—but between 1945 and 1951 imports of crude oil for refining multiplied over ten-fold, and nearly doubled again by 1957. Refining oil to produce petrol and other fuels was not the whole of the oil companies' business. There was also the production of chemicals which would serve as the basis of much modern manufacture of plastics and synthetic resins. Chemical exports, especially of petrol, gas oil, diesel oil, fuel oil and plastic materials soared, being about thirteen times their 1938 volume in 1955.

Old Industries : But some of the older industries have scarcely shared in this expansion. The output of shipbuilding industry rose by only 16 per cent in the years of booming demand between 1946 and 1950, and the failure of this industry to modernize its production methods led in the '50's to a growing inability to compete

[1] The following production figures tell their own tale :

Year	*Cars* (*in thousands*)	*Commercial vehicles* (*in thousands*)
1937	390	118
1946	219	148
1950	523	263
1955	898	341

Youngson, A. G., *op. cit.*, p. 205.

[2] Youngson, *op. cit.*, p. 207.

with German, Japanese and Swedish shipbulding.[1] The older textile industries—wool, cotton and jute—similarly failed to recover the ground they had lost before and during the war. The demand for textile goods was met partly by imports and partly by the rapidly growing chemical fibre industry producing attractive fibres like nylon and terrylene.

Problem of Monopoly

This far-reaching transformation of Britain's industrial structure was preceded and also followed by a considerable degree of concentration of economic power. Smaller firms were absorbed by the larger ones and larger ones merged together. Even before the war public was inclined to be favourable to monopolistic (cartel) arrangements. These went under the blessed name of 'rationalization'. The post-war situation further accentuated this trend. The motor industry continued to be dominated the 'Big Five'—the British Motor Corporation (formed by the merger of Austin and Morris in 1952), Ford, Rootes, Standard and Vauxhall. These five firms (of which the first and the last are American-controlled) account for between 80 and 90 per cent of car and commercial vehicle production in the United Kingdom. In steel-making single firms emerged to dominate the industry in South Wales (the Steel Company of Wales), and in Scotland (Colville's). Similar concentrations took place in the chemical, electrical engineering, paper and aircraft industries.

The Labour Government initiated the attack on industrial combinations which were held to be against the publice interest. A *Monopolies and Restrictive Practices Commission* was appointed in 1948 to investigate and make recommendations in regard to industries in which at least one-third of output was controlled by a firm, or through arrangements between the firms. The recommendations of the Commission, however, did not lead to action, save in a few cases. Then in 1956, when the idea gained ground that the causes of inflation were to be found in the monopolistic practices, the government decided to adopt sterner measures, and the *Restrictive Trade Practices Act* was passed.

[1] Flinn, *op. cit.*, p. 299.

By this a *Restrictive Practices Court* was established which was empowerd to annul monopolistic agreements between manufactures which were judged to be against the public interest. No attempt, however, was made to tackle the monopoly of the, single, large firm.

In conclusion, one must point out the fact the no serious attempt was made in Britain to curb the trend towards increasing monopolistic practices. In the name of export promotion, virtually unlimited opportunity has been given for the growth of industrial concentrations.

C. INFLATION

Personal income had been at a high level during the war, while many of the goods and services on which this money would normally have been spent had not been available. Strictest possible physical control measures 'suppressed' the inflation to a considerable extent during the war. But when peace returned and controls were slackened, the pent-up demand drove prices up.

The enormous demand for the products of industry could not be met by industries in which for six years during the war there had virtually been no new investment, no repair and maintenance of plants and no replacement of worn-out or obsolete machinery. To make the supply position worse, the balance of payment difficulties placed severe limitations on the imports of raw materials for much of this reconstruction. Added to it was the scarcity of labour for employment.

In the resulting inflation, prices in general rose to about three times their pre-wer level. The grave balance of payments position forced the government in 1949 to devalue her currency. This excessive devaluation of sterling acted as an additional driving force making for inflation. All the major industries in Britain depended on import of raw materials. Huge food import was also essential for feeding her increasing population. After the devaluation, import prices in the U.K. rose by no less than 66·3 per cent in course of twenty-one months. The Korean War boom further inflated these prices.

Control Measures

Inflation was sought to be tackled in two ways: by action to restrict the quantity of credit, and by attempts to restrain the rise of wages. So long as it was in power, the Labour Government found it possible to persuade trade unions to restrain their wage demands. But this solution was not so accessible to the Conservative Government after 1951, which did not enjoy the same degree of support from the T.U.C. The unions began to exert pressure to keep their members' wages moving up with prices. Indeed, the trade unions were so strong that they were able to press wages upwards even faster than prices, thus accelerating the inflationary process. In the early '60's the government declared a 'wage-pause'—an appeal to call a temporary halt to wage increases. But the government could not enforce this. Then in 1962, a *National Incomes Commission* was set up, charged with the task of adjudicating in wage negotiations with a view to ensuring that national interest of stable price was safeguarded.

Though wage restraint did not work, credit, the expansion of which lay in the root of rising prices, was easily regulated. In 1951, the Bank Rate was revived as an instrument of economic policy. The change in the Bank Rate (from 2 to 2½ per cent) was in itself so small as to be almost insignificant. Also, the banks possessed such large supply of Treasury Bills that they were in a position to finance new advances for a long time to come without having to sell gilt-edged securities at a loss. The monetary authorities had, therefore, to think out a flexible programme for monetary control and the Treasury announced funding loans for £1,000 m. against outstanding Treasury Bills. By mopping up Treasury Bills these loans destroyed the excessive technical liquidity of the banking system and reduced the bank's ratio of liquid assets to deposits nearly to that 30 per cent ratio which convention regarded as the safe minimum.

The measures, announced early in November, 1951, reintroduced the whole apparatus and idea of monetary control. The key to Britain's financial and monetary history from that date to the end of 1957 is the irregular but persistent increase in Bank Rate to 7 per cent. These quantitative restrictive measures

brought about a slight slowing down of the rate of inflation. But these measures were also responsible for the slowing down of the rate of economic growth in the late 1950's. Naturally, the authorities turned to the selective credit control measures, particularly the consumers' credit control measures. The level of hire purchase credit was reduced temporarily raising the legal minimum for down payments and shortening the maximum period of repayment.

Though, of late, there has been a slight slowing down of the rate of inflation, the problem of inflation still remains. It is a problem of structural disequilibrium of Britain's economy and it is futile to try to solve this problem only by traditional monetary fiscal measures.[1]

D. THE EUROPEAN COMMON MARKET

Great Britain had been, for two hundred years, the leading industrial power in the world. After the First World War, the U.S A. reached a position entitling her to claim supremacy over Great Britain in the industrial field. The U.K. vigorously fought back. She was the biggest colonial power in the world with her colonies spread over the length and breadth of both the hemispheres. Acting as sources of cheap raw materials for her industries and also as a market for her manufactured products, these colonies had enabled Great Britain to maintain an uneasy balance. But the Second World War disturbed once again this precarious balance. The loss of the colonies dealt a heavy blow to the British economy. Her foreign investment considerably declined and her political importance dwindled. To tide over these difficulties, she hit upon a brilliant plan. A voluntary association of the erstwhile Colonies and Dominions (known as

[1]This is made clear from the following figures quoted in Harrod's book, *The British Economy*, p. 25.

Average Annual Percentage Rate of Price Increases :

Year	Import Prices (*percent*)	Consumer Prices (*percent*)
1946-mid. 1948	+13.1	+8.3
Mid. 1948-Sept. 1949	− 5.5	+0.8
Sept. 1949-Mid. 1951	+33.8	+6.4
1951-1960	− 2.1	—2.7

the British Commonwealth or simply as the Commonwealth) was established ; the member countries enjoyed the privilege of exporting their goods to U.K. duty-free and without any trade restrictions. Thus assured of market for their products, the newly independent countries like India, Ceylon, Ghana, etc. did not hesitate to become members of the Commonwealth.

By this process, the U.K. tried to maintain her economic leadership and her political stature. But she could not succeed. Step by step, the U.S.A. secured considerable control over the economic structure of West Europe. When the 'Organisation of European Economic Co-operation' (OEEC) was established for bringing about economic 'integration' of the West European countries, the U.S.A. became its most important member. With her massive economic assistance, the war damaged industries of Federal Germany were rehabilitated and modernised ; and by 1955-56, the basic industiral production of West Germany far exceeded that of U.K. The share of Great Britain in the industrial production of the capitalist world declined from year to year (1937 : 12·5% ; 1953 : 10·1% ; 1957 : 9·5% ; 1961 : 9·04%).

Emergence of the European Common Market

It was at this stage that as a part of the 'Grand Strategy' of U.S. to consolidate her dominant position in the 'Free World' (i.e. capitalist world), an agreement setting up a European Economic Community (EEC) was signed in Rome, in 1957, providing for the establishment of the European Common Market. The three components of the Market Organisation are that it is (*i*) a Customs Union ; (*ii*) an Economic Union ; and (*iii*) a Political Union. The aims of the Customs Union aspect of the Market are progressive reduction of tariffs between the member states with a view to ultimate development of a free-trade area, and adoption of a uniform external tariff which will separate the member countries from the outside world. The aims of the Economic Union are the adoption of a common policy with regard to monetary question, progressive harmonization of the economic policies of the member states and adoption of a common standard in relation to social service. The aim of the Political Union is the setting up of supra-national organisations

which would control the Market policy. There will be a European Parliament initially to be elected from the various Parliaments and ultimately to be elected by universal suffrage; Parliaments of member countries would be subordinate to the European Parliament.

The Treaty of Rome was signed by six member countries: West Germany, France, Italy, Belgium, Netherlands and Luxemburg. (All are members of NATO.) Since the inception of the ECM the Customs Union aspect has made much headway but little progress has been made with regard to the development of the Market as an Economic Union. And there has been no progress in the Political Union aspect of the Market.

The Treaty is the result of stubborn bargaining among the monopolies of the six countries, above all between those of France and West Germany. The strongest position in the bloc is occupied by the West German monopolies. Already in 1960 Federal Germany's industrial output equalled that of France and Italy (the next two biggest partners) taken together. (West Germany accounted for 45% of the industrial production of the Common Market countries, its share being 46% in steel, 40% in cement, 42% in electric power, 51% in automobiles.) West German attempts to establish absolute domination over the ECM are resisted by France, Italy and other countries.

Progress of the Market Countries

In the five years since the Treaty, the six Common Market countries have reduced their reciprocal tariffs substantially for almost all goods (by 46% for manufactured goods and by 30-35% for agricultural produce). Moreover, steps have been taken towards establishing a common external tariff for imports from non-Market countries. Certain restrictions on the free circulation of capital and man-power inside the Common Market have also been removed.

These measures have had their effect on business activity. Economic integration has given more room for the development of the productive forces of the countries concerned. The very establishment of the Common Market was accompanied by redoubled efforts on the part of the monopolies in the member

countries to enhance their competitive power. Investment for modernisation of production was increased; organisation, management and technology were all geared to expansion. [In the period from 1957 to 1961 industrial production in the Market countries increased by 30%, while foreign trade went up by the 50%. The rate of industrial output in the Market countries was double that of the 'free world' as a whole.]

Resistance of U.K.

When the success of the Market became apparent, U.K. grew apprehensive. It became apparent that it would be almost impossible for her to retain her independent economic status. She tried to make some kind of arrangement with the Market countries, which would enable Britain to reap all the benefits of the Market without having to pay the price. She made a suggestion for a wide Free Trade area covering industrial goods only side by side with the Market. The suggestion was turned down by the Six, because while it would have allowed U.K. to sell her industrial goods free of tax in the West European market, it would not have enabled the West European countries to have free access to the British market for their agricultural products. In despair she formed parallel association, the European Free Trade Association (EFTA), with Norway, Sweden, Denmark, Switzerland, Austria and Finland as its other members. But in the trade war that followed, the EFTA was found to be no match for the ECM.

Painfully Britain has to recognise the fact that she has been losing ground even in her traditional markets. [Britain's exports to the Commonwealth countries fell by 20% between 1951 and 1960. Between 1955 and 1960, while the U.S.A. almost doubled her exports to India, U.K.'s exports remained practically unchanged. This was due to the inability of Great Britain to provide India and other Commonwealth countries with machinery and capital goods which they required for their industrial development.]

In the winter of 1960, it became evident that Britain was moving into a serious financial crisis. Foreign money, which had come to London because of high interest rates, began rapidly

to move out again. In order to avoid this crisis, the Bank of England had to borrow heavily from the West European banks and from the IMF. At this stage it became impossible for Great Britain to resist Washington's insistence on her (Britain's) opening negotiations to enter the Common Market.

U.K.'s Intention to Join the ECM

In 1960, the U. K. finally made up her mind to join the ECM. The official communique explained in detail the economic and political advantages of Britain's joining the Market. Economically the Market would provide Great Britain with a very large and rich market comparable in size with that of U. S. A. or U.S.S.R. Politically, the membership of the Market would bring Great Britain in closer unity with West Europe. [In former centuries Britain could afford to follow a policy of interested aloofness from European affairs. The emergence of the Soviet Union as by far the strongest European power, and the weakening of Britain's military and economic position in the world, have brought the policy of relative detachment to final collapse. She must form alliances and associations with 'what remains of Europe outside the Soviet sphere' to restore a reasonable balance of power in post-war Europe. In short, economic, political and military integration of Western Europe (including Great Britain), under the leadership of the United States, is considered essential for 'resisting monolithic pressure' of the Communist bloc.] In addition to that, the growing importance of West Germany and France, apart from that of the U.S.A., in both economic and political affairs of Western Europe made Britain apprehensive ; she wanted to re-establish her leadership by joining the ECM.

The Dilemma

In applying for a membership of the ECM, Britain had to face a large number of obstacles. The most important among them were U.K.'s future relations with the Commonwealth countries and the EFTA countries. Under the arrangement with the Commonwealth countries and the EFTA countries, the

commodities produced by these countries are admitted to the British home market free of tax or on the basis of lower tariffs than those imposed on goods from other countries. In return, the Commonwealth countries and the EFTA countries admitted British goods at a lower level of tariffs than those imposed on goods from other foreign countries. If Britain entered the ECM, however, she would have to admit the goods of the ECM countries into the British market free of tariffs, and would have to tax all manufactured goods and foodstuffs coming from the Commonwealth countries. If this were to happen, the Commonwealth countries, naturally, would withdraw the special privileges extended to Britain This loss of export market would have serious consequences for Britain, since her trade with the Commonwealth, even though declining in recent years, nevertheless represents some two-fifths of her total trade. Apart from this economic consideration there is a political question not less important to Britain. Without the Commonwealth Britain will be shorn of much of her present political stature.

Secondly, there is no unanimity of opinion regarding the effects on here economy of Britain's proposed entry into the Common Market. Even those who argued that in the long run entry into the Market would be beneficial, have to admit that at first there would be grave economic difficulties leading to a high degree of insecurity. A leading authority on the subject divided British industry into *three* groups : (*a*) those which should on balance, benefit from entry into the Market, (*b*) those whose position is doubtful, (*c*) and 'those which would most certainly lose'. In the first group, it included "sports cars, commercial vehicles, woollen textiles, electrical and general engineering, rubber manufactures, knitwear and clothing". (The most important thing to be noted is that three of Britain's most highly monopolised and most technically efficient industries are not included in this group, namely, chemicals, iron and steel and motor cars.) The industries whose positions are doubtful are "non-ferrous metals, aircraft, oil refining, building materials, glass, scientific instruments and sports goods". Among those which are expected to do badly are "cotton, rayon, leather, watches and clocks". (The prospect of ship-building, one of Britain's most famous industries, is not mentioned at all.)

Thirdly, the public opinion in Great Britain has been definitely against some of the political implications of the Common Market. Most of the people do not like to see the freedom of action of the Government or Parliament restricted by American interference or by the decisions of the NATO. When the British Government was forced by the Labour Party to deal with the political aspect of the question, it made it clear that it was interested in the Custom's Union aspect of the Market and not in the Political Union aspect of the Market. The Government gave an assurance that it would be possible for Great Britain to resist 'supra-nationalism' in the Market and to safeguard political independence.

Negotiations

When under considerable American pressure, Mr. Macmillan finally decided to apply for a membership of the ECM, he stressed that his Government would join the Market only if "satisfactory arrangements can be made to meet the special needs of the U.K., of the Commonwealth and of the EFTA." The announcement was made on July 31, 1961. Before that Mr. Macmillan deputed trade delegations to the Commonwealth countries to assure the latter that their trade interests would be kept in mind in any negotiation that the U. K might undertake for entry into the Common Market. When Mr. Peter Thorneycroft, a member of the British Cabinet, came to India in July, 61, he extended the same assurance to India.[1]

[1]India is much apprehensive over the result of Britain's entry into the Common Market. It was pointed out to Mr. Thorneycroft that "if the U. K. joined the ECM without suitable provisions for the future trade of the Commonwealth with special emphasis on the types of product which come from the developing countries, India and other developing countries of the Commonwealth would find it extremely difficult to maintain and expand their export trade. This is a matter of vital concern to developing countries like India, since the earning of their export trades provides the external resources for their economic development". It was also pointed out that the credits which India had been receiving from the U. K. as well as other countries could only be repaid through expansion of India's exports.

India is afraid that the whole range of her exports would be affected. Cotton textiles are likely to be the worst hit. (As a result of the imposition of tax on Indian textiles, these would become more expensive compared with British textiles. Moreover, Indian textiles would lose their preferences over continental textiles imported into U. K.)

In September, 1961, the Commonwealth Finance Ministers met at Accra. They expressed the fear that if the U.K. joined the Common Market, without suitable provisions for the future trade of the Commonwealth, this would mean the end of the Commonwealth. But for reasons stated above, Britain cannot afford to give up her Commonwealth relations. So in October, 1961. Mr. Heath, the U.K.'s Minister-in-Charge for Common Market negotiations, presented a programme at the ECM Ministerial Conference, suggesting that the Commonwealth countries (specially Australia, Canada and New Zealand) be given the opportunity to be 'associated' with the Common Market. For the Commonwealth countries which are not in favour of being associated with the Common Market, he proposed two alternatives—either to arrange for the continued free entry of their exports into the U.K. or to consider their problems on a 'commodity by commodity basis'.

The negotiations went on at a snail's pace. The creation of the Common Market and Britain's initial unwillingness to join it had almost ousted British goods from the Common Market —'the world's largest market for imported manufactures'. This also enabled German industries to enjoy a position of near-monopoly in the Market. So when Britain began to think in terms of joining the Market together with her Commonwealth countries, West German industrialists did not like the move. Consequently, there was a great tussle between British monopolies and their West German counterparts. The negotiation continued month after month, the conflict growing in intensity in the concluding months of 1962.

Clash of Political Ambitions

We have noted that the Common Market was a product of America's 'Grand Design'. The Americans saw in this an excellent device for the consolidation of anti-Communist forces in Western Europe; it was also designed for extending and consolidating American influence over Europe (and through Europe over Africa and Asia). Politically and militarily West Europe was already at the mercy of the U.S.A. Now the U.S.A. tried to establish her economic hegemony over the region.

Private American capital flowed freely into 'Little Europe' even to the point where the outflow seemed to be creating a balance of payments problem for the United States.

At this stage de Gaulle (the French President) reappeared on the European stage, and France under de Gaulle began to pursue an independent ambition of her own. France exploded her own atomic bombs and became the fourth independent nuclear power of the world ; de Gaulle prepared a blue-print for Western Europe, independent of the 'Anglo-American hegemony'. The West German Government under Chancellor Adenauer, began to support him for all practical purposes.

While the negotiation for Britain's entry into the Common Market continued, the French President became convinced that Britain would play the role of America's 'Trojan horse' in the European Economic Community (EEC). He officially stated that the entry of Britain and 'her camp followers' would destroy political cohesion of the Europen Economic Community. The Community was a marriage between German industry and French agriculture ; and de Gaulle felt that Britain with her 'insular interests and relations with distant and diversified countries', would weaken the unity of the Market, and this would open the way for an American domination.

Faced with the prospect of a possible French 'veto' over her entry into the ECM, the British Government tried by a complex set of manoeuvres to win over other five members of the ECM. For example, the British Government encouraged the West Germans to press their claim for a 'finger on the nuclear trigger' by demanding multilateral control over nuclear weapons in the possession of NATO. Then Britain began publicly courting Rome and playing on Italians' fear of a Franco-German hegemony. But this kind of diplomacy deepened the suspicion of France that the British policy of 'divide and enter' would be followed by 'divide and dominate' in due course. In his press conference of January, 14, 1963, President de Gaulle bluntly stated that 'the nature and structure of Britain is profoundly different from that of the continental States. Britain, if she wants membership, must adapt herself fully and give up Commonwealth preferences, cease agricultural protection and break with the EFTA'.

Within a fortnight, the 15-month old negotiations on Britain's application for the ECM membership failed, and the door into Europe was shut, at least temporarily, for Britain. Eight more years have passed but Britain has not yet been accepted as a member.

Conclusion

Quite possibly, it signifies a change in the power-pattern of Europe and in the balance of power within the Western Alliance. But the immediate repercussions on British economy are no less important. With mounting unemployment at home (nearly 1 million, according to a conservative estimate) and a continuous fall in exports, British economy faces fundamental structural problems from which there appears to be no easy escape. The recent change in the Government—the Conservative's coming to power—will not, by itself, solve the problem.

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